

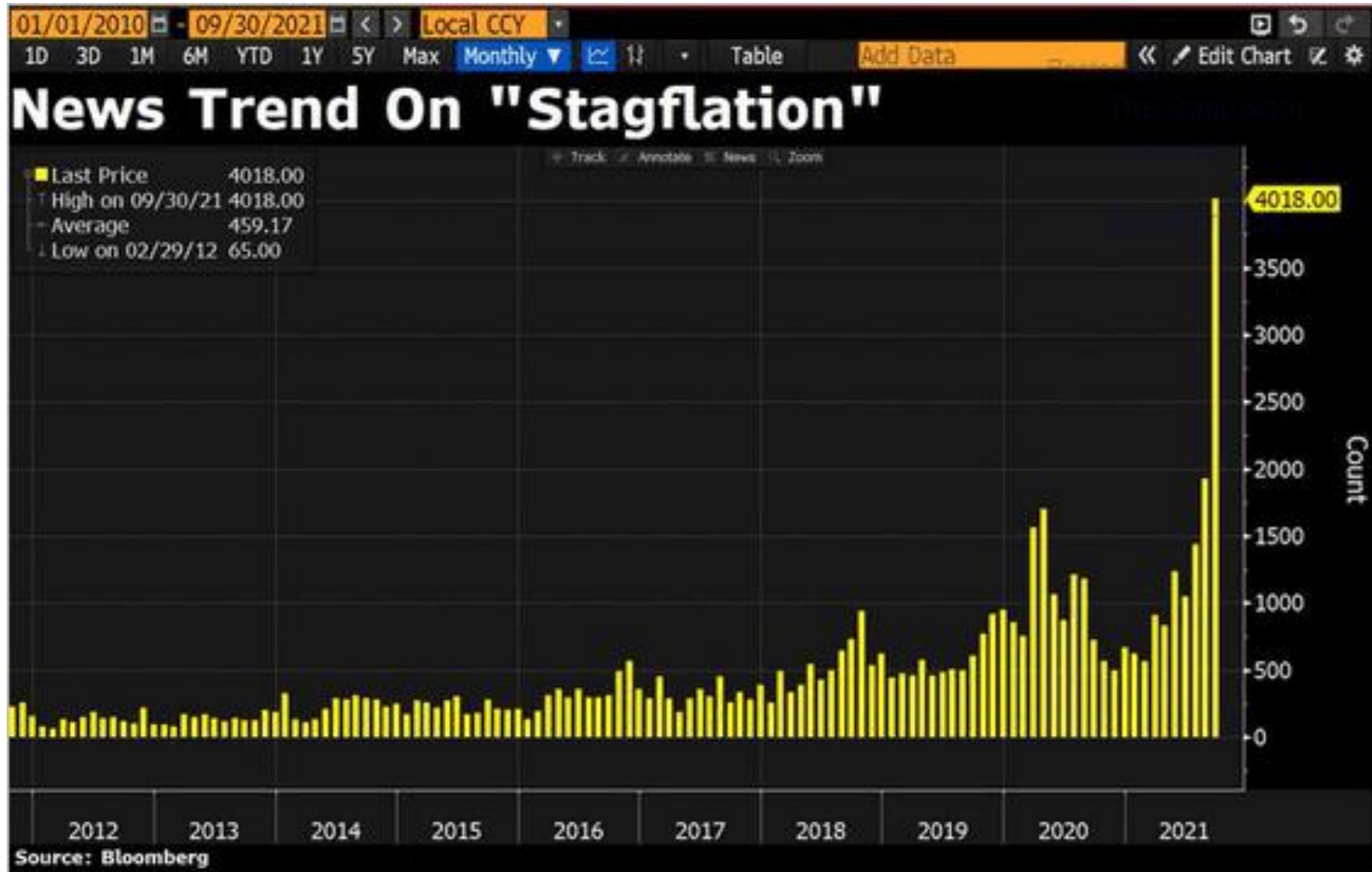


STAGFLATION!

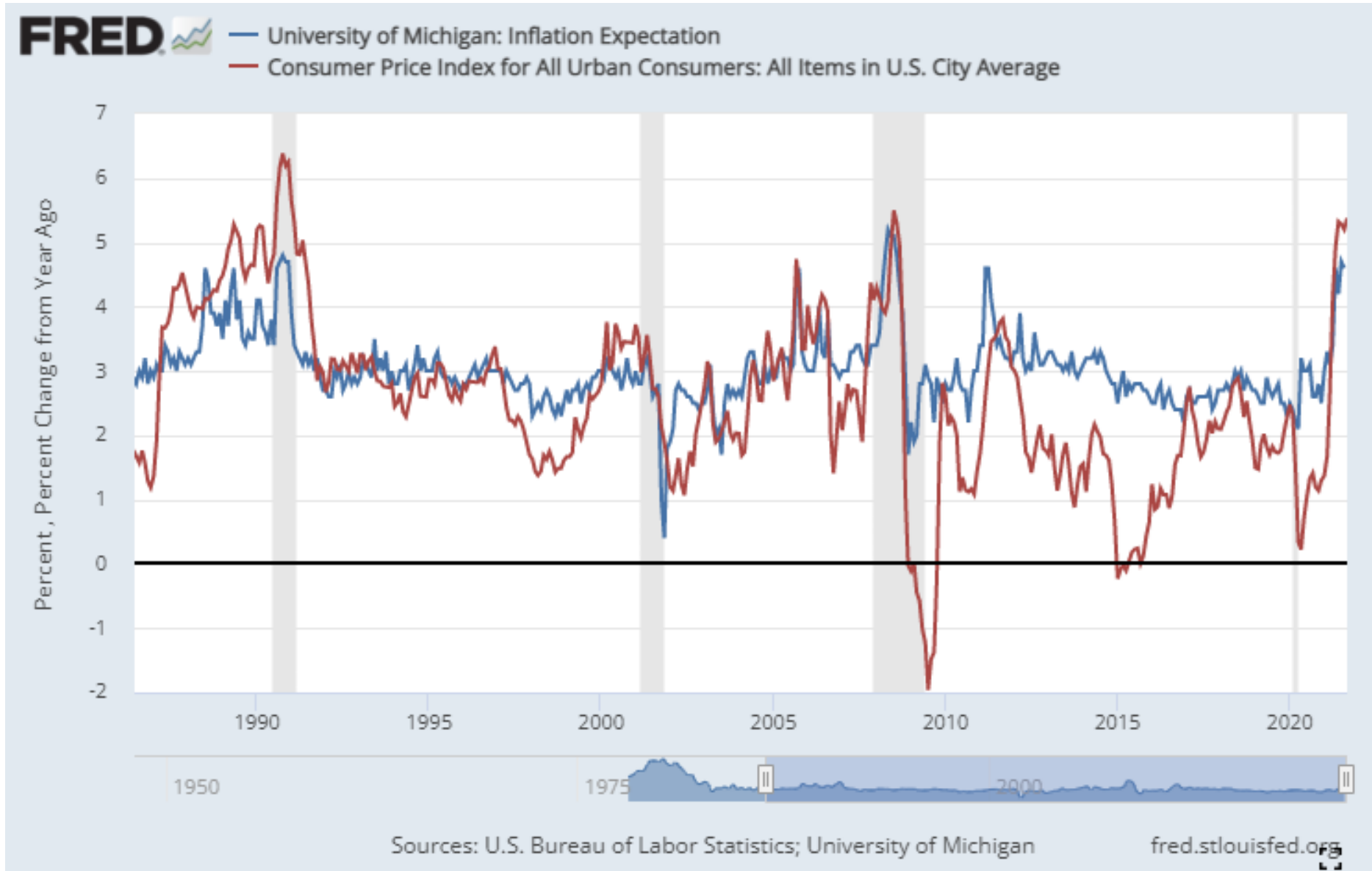
Agenda: Stagflation!

- US inflation strong
- Chinese inflation weak, except for US
- Commodities battleground/energy crisis
- Monetary and fiscal policy
- Australian inflation
- Investment implications

Theme Du Jour



Expectations rising. But are they a predictor.



US inflation strong

Table 1: % mom CPI heatmap

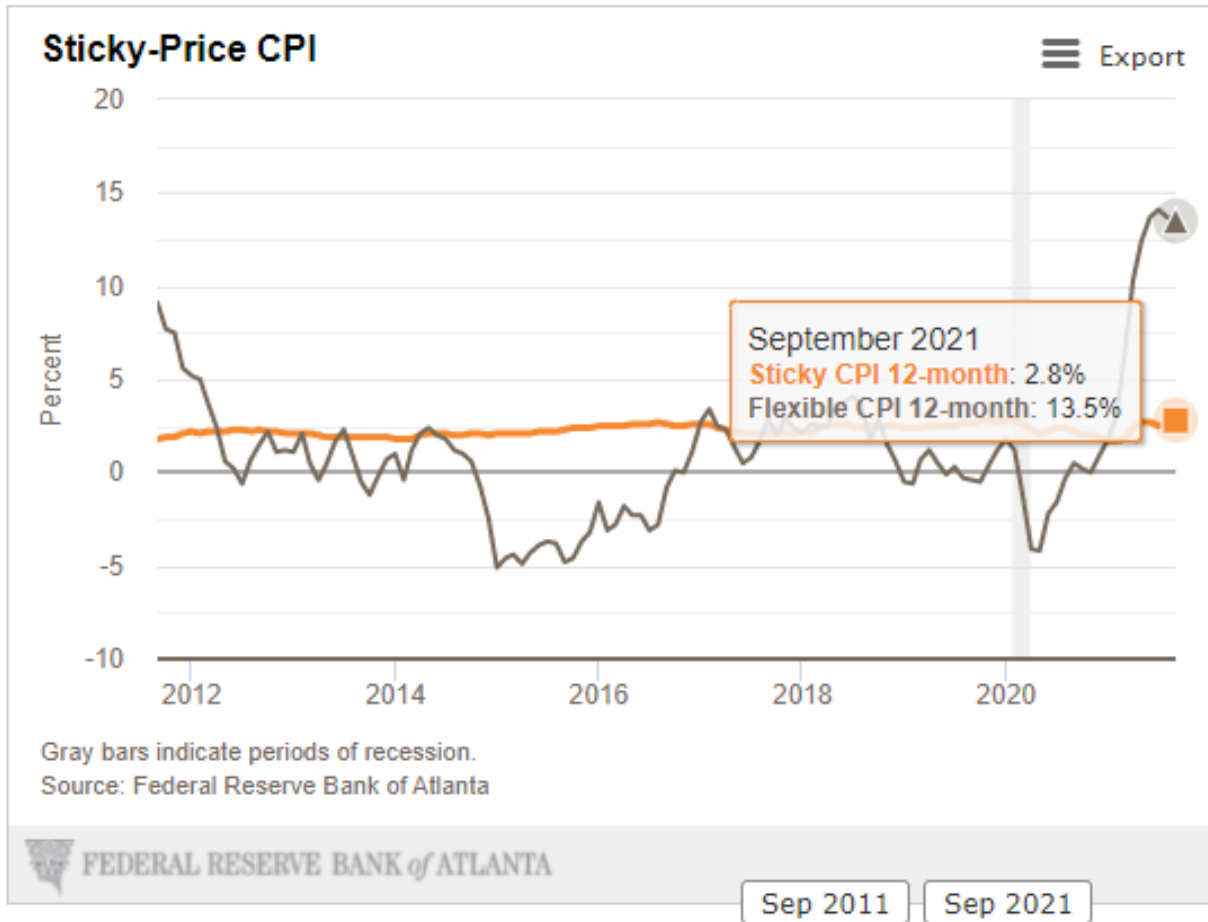
Core CPI rebounds to 0.24% mom clip as rents accelerate notably

Aug-21 weight	Component	Sep-21	Aug-21	Jul-21	Jun-21	May-21	Apr-21	Mar-21	Feb-21	Jan-21	Dec-20	Nov-20	Oct-20
100.0	Headline CPI	0.41%	0.27%	0.47%	0.90%	0.64%	0.77%	0.62%	0.35%	0.26%	0.24%	0.18%	0.12%
13.9	Food	0.93%	0.40%	0.72%	0.78%	0.44%	0.38%	0.11%	0.17%	0.08%	0.34%	-0.03%	0.19%
7.3	Energy	1.28%	1.98%	1.63%	1.47%	-0.01%	-0.10%	5.00%	3.85%	3.49%	2.59%	0.72%	0.59%
78.8	Core CPI	0.24%	0.10%	0.33%	0.88%	0.74%	0.92%	0.34%	0.10%	0.03%	0.04%	0.17%	0.07%
3.7	Household Furnishings and Supplies	1.29%	1.24%	0.07%	0.14%	0.94%	0.93%	0.36%	-0.10%	-0.54%	0.00%	0.79%	-0.44%
2.7	Apparel	-1.12%	0.37%	0.04%	0.70%	1.22%	0.32%	-0.28%	-0.74%	2.21%	0.90%	0.67%	-0.88%
7.9	Motor Vehicles & parts	0.32%	-0.02%	1.01%	5.62%	3.96%	4.33%	0.23%	-0.35%	-0.63%	-0.13%	-0.57%	0.53%
3.8	New Vehicles	1.30%	1.22%	1.72%	1.97%	1.63%	0.48%	0.02%	0.02%	0.52%	0.37%	0.02%	0.34%
3.4	Used Cars and Trucks	-0.70%	-1.54%	0.27%	10.49%	7.29%	10.04%	0.55%	-0.90%	-0.89%	-0.90%	-1.38%	0.85%
1.5	Medical Care Commodities	0.31%	-0.17%	0.17%	-0.40%	-0.02%	0.58%	0.05%	-0.70%	-0.10%	-0.23%	-0.41%	-0.69%
2.0	Recreation Commodities	-0.24%	0.95%	0.53%	-0.33%	0.39%	1.23%	0.21%	0.49%	0.13%	0.24%	0.33%	-0.09%
0.5	Education and Communication Commodities	0.63%	-0.09%	0.83%	-0.18%	0.39%	3.12%	-1.75%	-0.17%	-0.56%	0.34%	0.51%	-0.42%
1.0	Alcoholic Beverages	0.16%	0.35%	0.30%	0.45%	0.36%	0.19%	0.31%	-0.13%	-0.06%	0.11%	0.36%	0.38%
1.5	Other Goods	0.08%	0.37%	0.19%	0.12%	-0.14%	0.44%	0.23%	0.33%	1.08%	-0.04%	0.49%	0.19%
32.6	Shelter	0.40%	0.16%	0.43%	0.49%	0.29%	0.40%	0.30%	0.17%	0.08%	0.12%	0.14%	0.12%
23.6	Owners' Equivalent Rent of Residences	0.43%	0.25%	0.29%	0.32%	0.31%	0.21%	0.23%	0.27%	0.14%	0.14%	0.05%	0.21%
7.6	Rent of Primary Residence	0.45%	0.31%	0.16%	0.23%	0.24%	0.20%	0.15%	0.20%	0.11%	0.11%	0.08%	0.16%
1.1	Lodging Away From Home	-0.56%	-2.92%	6.01%	6.95%	0.40%	7.65%	3.84%	-2.31%	-1.88%	-0.30%	2.85%	-2.67%
1.1	Water & Sewer & Trash Collection Services	0.46%	0.31%	0.46%	0.39%	0.11%	0.11%	0.19%	0.42%	0.36%	0.37%	0.25%	0.24%
0.9	Household Operations	-0.24%	0.74%	0.19%	-0.94%	3.13%	0.57%	0.10%	0.30%	0.71%	1.98%	-0.35%	0.31%
7.1	Medical Care Services	0.10%	0.34%	0.28%	-0.04%	0.09%	0.05%	0.15%	0.46%	0.49%	0.12%	0.14%	-0.30%
5.1	Transportation Services	-0.47%	-2.29%	-1.09%	1.49%	1.53%	2.88%	1.76%	-0.08%	-0.32%	-0.57%	1.33%	0.23%
0.6	Airline Fares	-6.42%	-9.11%	-0.14%	2.73%	6.98%	10.17%	0.44%	-5.09%	-3.18%	-2.46%	3.71%	4.98%
3.7	Recreation Services	0.37%	0.23%	0.56%	0.47%	0.15%	0.75%	0.77%	0.58%	0.96%	-0.51%	0.48%	0.55%
6.1	Education and Communication Services	0.37%	0.22%	0.14%	0.12%	0.24%	0.13%	0.03%	0.14%	0.02%	0.07%	0.02%	0.16%
1.6	Other Personal Services	0.11%	0.44%	1.18%	0.18%	-0.13%	0.02%	0.89%	0.47%	-0.28%	0.90%	-0.32%	-0.06%

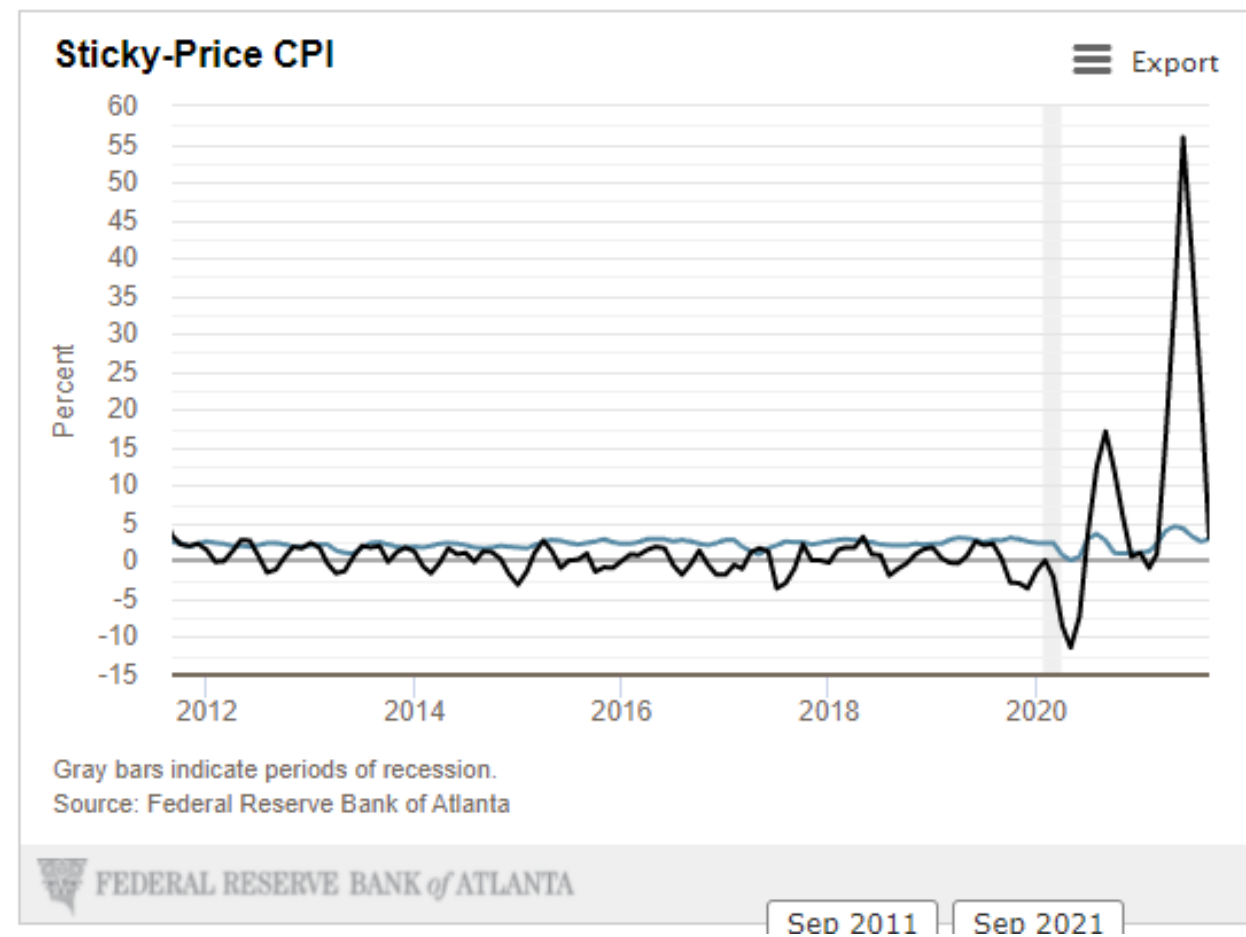
Source: BofA Global Research, Bureau of Labor Statistics

US inflation: few signs in sticky inflation

Annualised Data



3 month annualised growth: core



US inflation strong

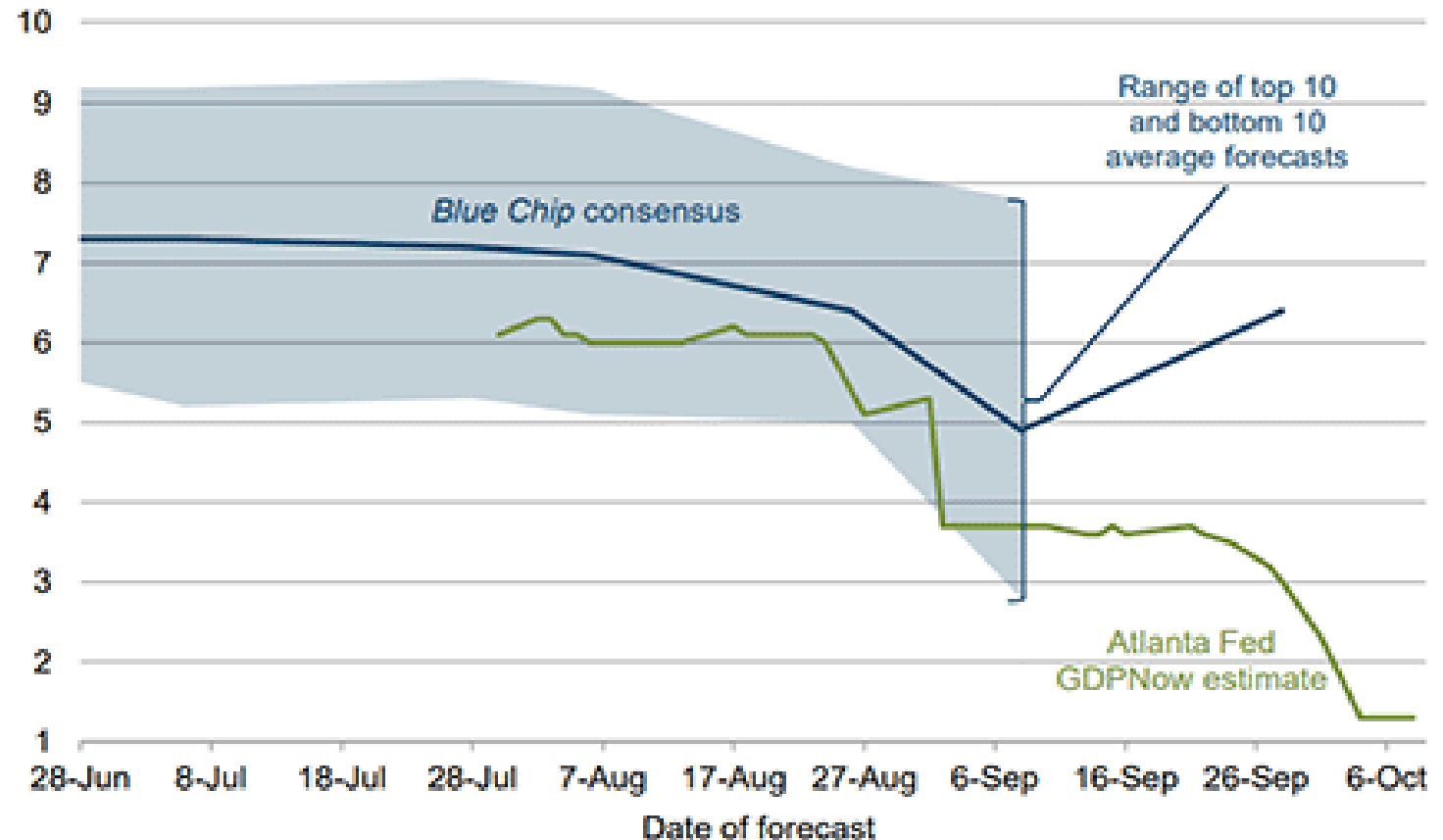


GDPNow™

GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

In particular, it does not capture the impact of COVID-19 and social mobility beyond their impact on GDP source data and relevant economic reports that have already been released. It does not anticipate their impact on forthcoming economic reports beyond the standard internal dynamics of the model.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2021: Q3
Quarterly percent change (SAAR)

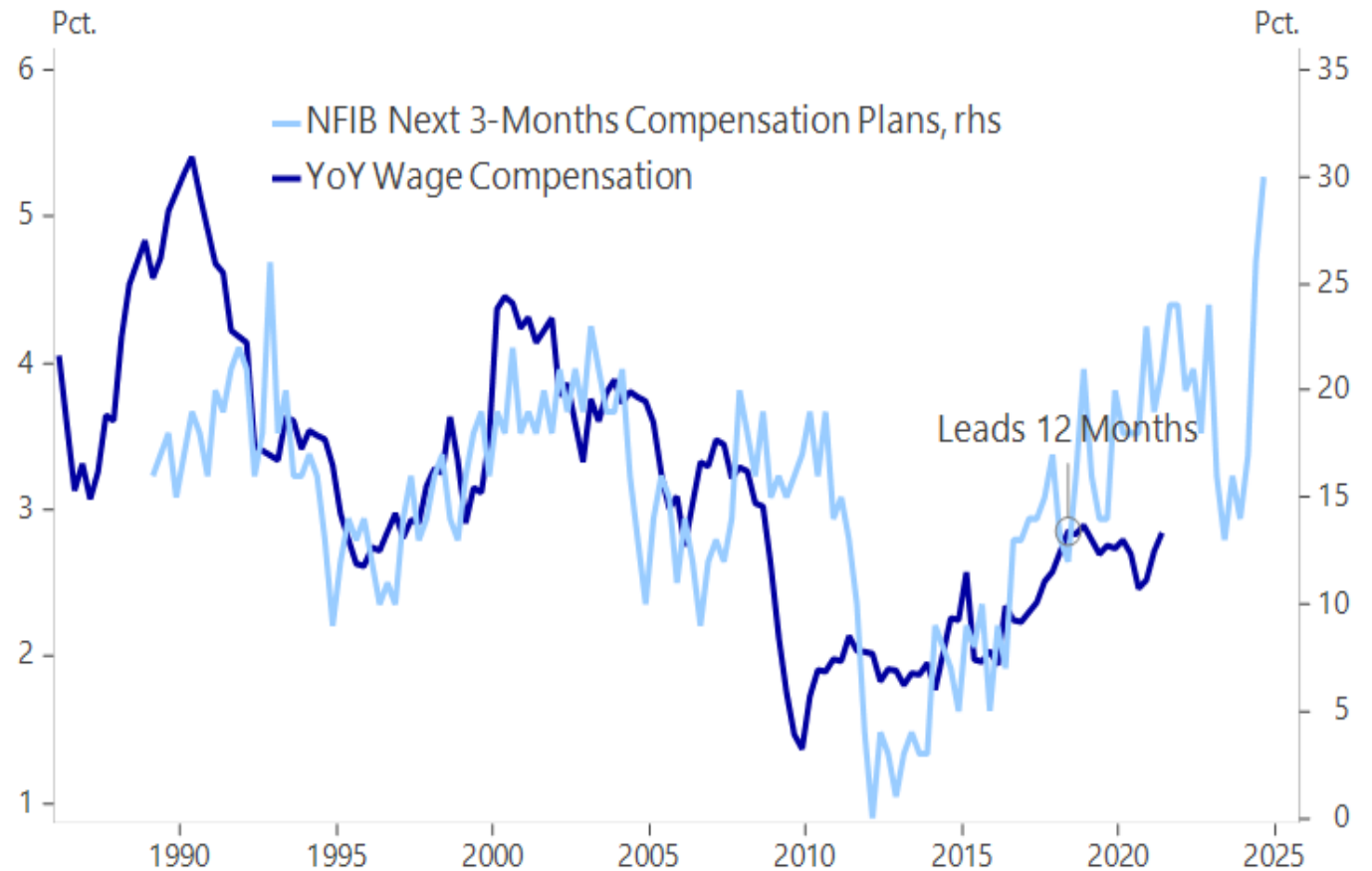


Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

US inflation strong

- Transitory fading
- Sticky increasing
- Wages?
- Growth fading on fiscal cliff



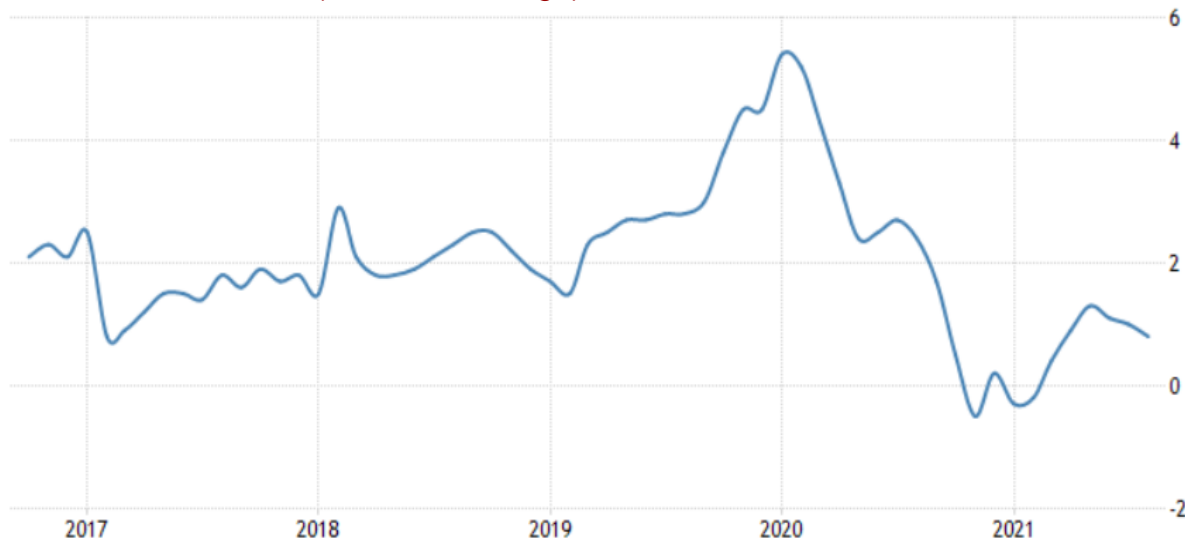
Source: Macrobond and Nordea Markets

Chinese inflation weak

- Consumer inflation very weak
- Producer inflation very strong but all in commodities
- Property shakeout enduring and huge headwind

Consumer Prices

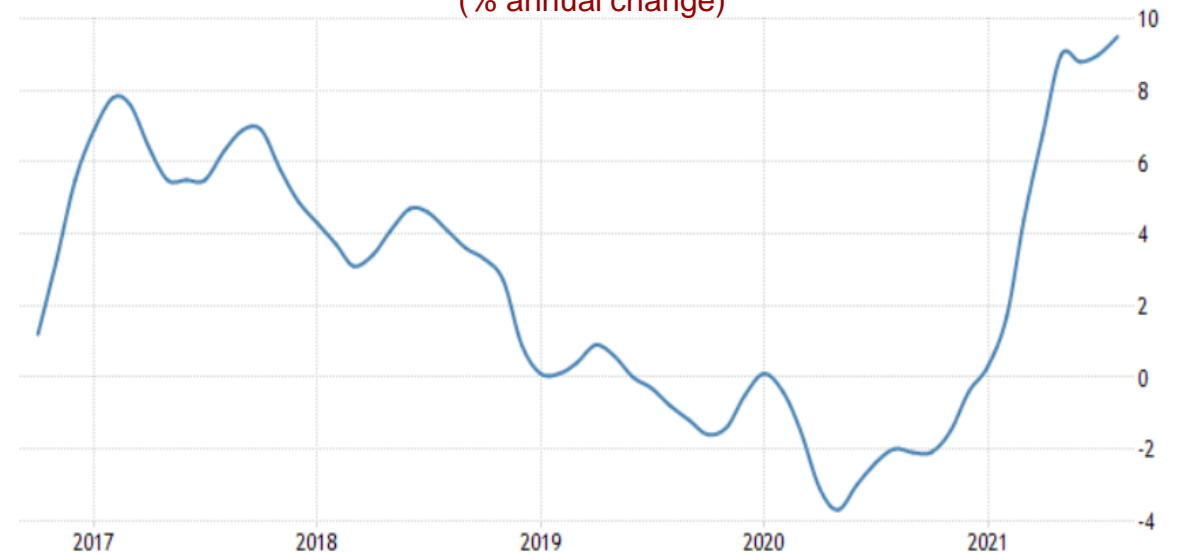
(% annual change)



SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

Producer Prices

(% annual change)



SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

Commodities battleground/energy crisis

- Wall Street flogging commodities inflation hedge/supercycle
- No underlying shortages of anything
- US and China slowing sharply. Europe next
- Underlying surplus to become apparent over time
- Most acute in energy where coals and LNG to crash
- Base metals at risk too as China slumps
- Virtuous cycle turns vicious cycle

Monetary and fiscal policy

- FOMC to taper lifting DXY with Bidens stimulus
- ECB slower despite fiscal boost
- None of it enough to support commodities as China slows
- China/EM crisis in 2022, Fed derailed
- Australian income shock + macropru + immigration = lowflation
- RBA may or may not taper but no rate hikes...ever again...

Investment implications

- Commodities/energy bubble bursts
- AUD falls
- Bond yields fall
- Stocks correct then resume Goldilocks bull market
- No stagflation, just the usual stimulus pulses

Viewer question of the week:

What signs of inflation are you seeing?

Drop your answers in the comments

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