

Long-dormant prices stirring

While the retail induced furor in US stocks has injected a fair bit of noise into markets, that seems to be fizzling out now, enabling us to look at some real issues again: This includes stimulus in the US as Biden talks to moderate Republicans, Covid-developments, central bank meetings (Australia today), inflation (Korean numbers released already)



Let's start with inflation

Let's start with inflation: and the growing notion that inflation in the US is looming and could push bond yields higher gained further support from yesterday's prices-paid index within the manufacturing ISM survey. This price sub-index increased to 82.1 from an already high 77.6. The last time it was higher than this was in 1979, though I think the prices-paid element of the ISM services index will be a better barometer of the sticking power of US inflation, as it is likely to shed more light on what is happening to wages. On that, this week's payrolls survey will also be worth a look.

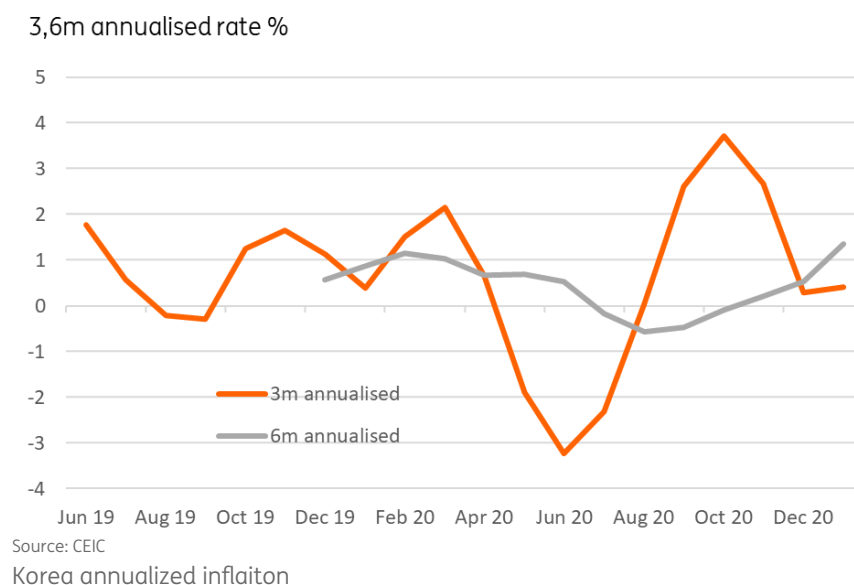
We have already had some inflation data out of South Korea this morning too. The month-on-month rate came in much stronger than had been expected, rising 0.8% in January from December. There were outsize increases in food (1.9%), household furnishings and equipment (1.0%) health (1.0%), and transport (2.3%), along with miscellaneous (1.0%).

The headline Korean inflation rate only rose slightly though, to 0.6%YoY from 0.5%YoY,

which suggests some big tweaks to the monthly seasonality or it would have been bigger. To see whether this is a meaningful acceleration in inflation, which is currently dominated by last year's big pandemic-induced declines in the price level, in the chart below, you can see two series. One is the 3m annualized headline inflation series, the other the 6-month series. For full transparency, the 3m series does not contain any comparison with the immediate pandemic dip months, so gives a fairly "clean" indication of the current annual inflation "run rate".

This 3m annualized series has risen, but only to a shade over 0.5% from about 0.2%. Korea does have a base effect looming of about a full percentage point which should be fully accounted for in the May data released in June. Adding today's annualized rate to the base effects would give us 1.5% inflation in June, up from today's 0.6%. A bit more recovery in the economy and an uptick in the monthly run rate could see that figure surpassed, taking the peak rate closer to 2.0% by the middle of the year before it dips back again. None of which suggests any urgency of response from the bank of Korea.

Korean annualized inflation rates



Reserve Bank of Australia

Later this morning, the Reserve Bank of Australia will make their decision on monetary policy, and the consensus is that they won't touch any aspect of their current policy setting. That includes the 0.1% cash rate target and 0.1% 3Y yield target, together with the AUD100bn government bond QE programme. The AUD has been a fair bit weaker in the last few days, taking pressure off the RBA to respond by talking the currency down further, perhaps by hinting about further easing. And with a lull in Covid infections and therefore lockdowns, the real economy looks in decent shape to grow in 2021, so the more pertinent question would be what comes after the QE programme ends? And when will the yield curve control policy be scaled back? We probably won't get any clear hints today - it is too early.

Bio-economics

There isn't too much to add on the Covid-pandemic front, except that the global daily trend of new

cases seems to have dipped, so barring a resurgence in one of the new variants, or another new one emerging, this trend is encouraging. There is a bit of shuffling for podium places at the top of the daily-case list, with the US still on top, but dropping sharply, as is Brazil and the UK. France, Russia and Spain are moving up the table, and we may see some switches in the coming days if the UK vaccine rollout and lockdown continues to work well. India has dropped well down the table.

I would say that this tells us very little about the next 3 or 6 months though. But it will encourage markets to take a brighter view.

Geo-economics-politics

And further reasons for optimism may come from talks between President Biden and moderate Republicans over a stimulus package. It remains to be seen if Biden can demonstrate the "art of the deal", but it looks to me that there is a compromise deal somewhere between the Republican \$618bn and Biden's \$1.9tr, even if it has to come at the expense of money for the states and local government or for federal minimum wages.

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