

Stagflation, sort of

China's slowdown, Evergrande contagion worries, supply chain disruptions, energy price surges, an appreciating dollar, rising Treasury yields, US debt ceiling anxiety, lingering Covid issues, North Korea firing missiles - this doesn't really feel like an optimal backdrop as we head into the fourth quarter...



Source: Shutterstock

Arise pessimists!

Those of you who know me well will know that I am not a glass-is-half-full type of person. I prefer to think of myself as a "dirty glass is cracked, filled with warm effluent and with a dead spider floating in it".

This psychological profile has been a great benefit during a life in financial markets, though I do have to regularly check my self-selecting indicators of impending doom against the rose-tinted worldview of the rest of the market - in particular, equity investors.

But this morning, it feels as if I have a few more members joining me in "Team-spider". US equities have not been having a bad time recently, but have certainly been struggling to go higher. Overnight, there was a substantial drop, with the S&P500 down around 2%, and the Nasdaq down closer to 3%.

Asian equity futures are, not surprisingly, looking a deep shade of red this morning, and it is hard to see what is going to turn that around in trading today. That said, this does feel like the equity market catching up on reality with other markets, FX and bonds, rather than anything substantially new to insert into our understanding of what is going on.

For example, EURUSD did decline a little further, but not much. It sits at about 1.1685 at the time of writing. It was just below 1.17 this time yesterday. That's an insignificant move. We've seen more movement in Asian FX, though not in China's currency, which should provide an anchor for much of the rest. We are seeing some further considerable weakness in some of the region's current account miscreants - THB, PHP (though not so much the IDR). But the weakest currency in our region over the last 24 hours was the JPY, which you would have expected to rally if this was all a big risk-off move with equities at the centre. Instead, this smells more like a rate differential move, with equities at the periphery adjusting to catch up.

Further fuelling that rate differential idea are the latest comments from St Louis Fed President, James Bullard. He told Reuters yesterday that he could see a case for two rate hikes next year. We've had further comments from Powell overnight attesting to more inflation being non-transitory, and 10Y US Treasury yields have gained further ground, pushing up to 1.537%, though the 2Y UST yield increase has slowed a bit now yields have reached 0.3%, and only added a further 0.5bp overnight.

Dataflow from the US last night was a mixture of positive inflation news and soft activity indicators. On the inflation front, the S&P Case Shiller house price inflation measure reached within spitting-distance of 20%YoY. If that doesn't alarm you, you have ice in your veins. On the growth side, we got more falls from the Conference Board consumer confidence indicator and a soft Richmond Fed manufacturing index too.

Stagflation mentions rising

While I can think of a lot of reasons why the term is inappropriate, the rest of the world seems to be getting more concerned about the idea of "stagflation". I quickly reminded myself how to do a trend search on Google this morning, and once I had convinced the engine that I didn't live in Vietnam, it spat out a chart that shows stagflation mentions moving up sharply in September.

However, it is hard to fully sign up to the stagflation argument when the split between temporary price-level adjustment and entrenched higher price and wage-setting behaviour remains unclear. And the "stag" bit of the term is relative. Absolute growth levels are actually very good (all things considered). But they are just down a bit from the height of expectations. Nonetheless, there are bits of what is going on that do fit the stagflation bill, so we might do well to at least consider this in the Stagflation-lite camp?

I mentioned in the summary at the beginning the litany of stuff that could be making you nervous about holding risk-on investment positions right now. They include the China growth slowdown, Evergrande contagion fears, supply chain concerns, energy price surges, food price spikes, an appreciating dollar, rising Treasury yields, US debt ceiling anxiety, lingering Covid issues, and North Korea firing missiles. There are certainly elements of this that you could slot into a stagflation hypothesis.

Optimists, quoting from 80s pop-band "D-ream", would have you believe (in contradiction to the second law of thermodynamics) that from this point, things can only get better. Team-spider

would draw different conclusions. Where do you stand?

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com