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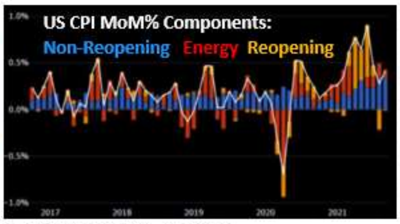
Your eyes and ears on the markets

October 14th 2021

STICKY

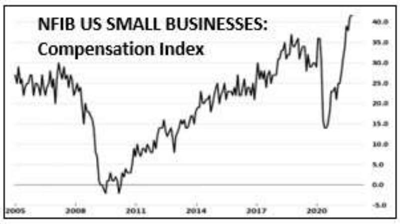
US: CPI + CPI COMPONENTS + CPI OER + NFIB COMPENSATION + WAGE GROWTH EXPECTATIONS + FUND MANAGERS INFLATION EXPECTATIONS

Source NY Fed - **CHART 1**

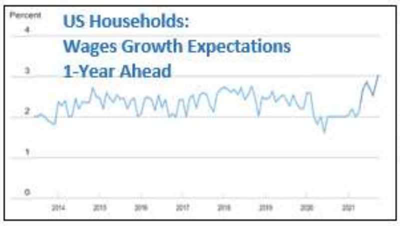


Source Market Ear - **CHART 2**

Source BLS - **CHART 3**



Source NFIB - **CHART 4**



Source NY Fed - **CHART 5**

Source Deutsche Bank - **CHART 6**

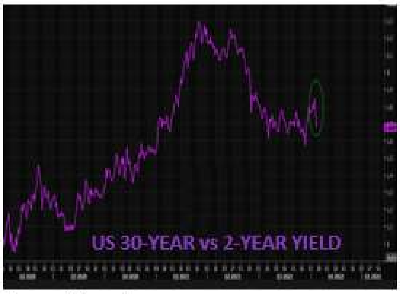
Inflation is here in the US (chart 1), it is proven stickier that anticipated by many and will not go away in the coming months. Slowly but surely, non-reopening components in the CPI are taking the lead (chart 2) with, among others, shelter costs up 0.5% + food prices up +0.9% in September (both components accounted for 50% the CPI monthly increase). And that should prove to be a more durable tailwind for inflation, given the structural nature of these components.

What's more, OER shelter costs (which account for 30% of CPI) have still a long way to go in order to catch up with the realized rental price increases (chart 3), while a record share of businesses are boosting wages (and plan to keep doing so in the months ahead – chart 4). When adding the increase in energy prices + the impact of bottlenecks, it is no wonder that expectations for inflation & wage growth are rising (chart 5); with the risk of entering a self-fulfilling/vicious circle/cycle.

Although the consensus among investors with regard to the temporary nature of inflation is shifting (chart 6), a large majority (ie 62%) is still considering that it is just transitory. Hence the current resilience of the markets (given such a denial), while a big pool of assets remains parked in money market funds. Nonetheless, we continue to believe that this consensus will eventually be proven wrong, as the Fed is definitively behind the curve (with the PCE now up 4.3% YoY, the highest in three decades).

US YIELD CURVE

Source Bloomberg



Source Bloomberg

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Were it not for the pile of cash sitting on the sidelines (and getting ready to benefit from any return, as already mentioned), the resumption of the US yield curve flattening would/should be worrisome, suggesting that 1) the Fed may be wrong and/or 2) a sharper-than-expected slowdown is in the pipeline.

Meanwhile, with a yield of 2.06%, yesterday's 30-year Treasury auction was a success, given a bid-to-cover ratio of 2.36 (versus an average of 2.31 over the past six auctions). Hence the improvement of the long end of the US bond market yesterday, for the reasons evoked above, and in spite of bad inflation figures.

US BANKS BKX INDEX – DAILY

We like what we see. Yesterday's downside reversal fits with the idea of an extension of the consolidation since the top of wave III.

JPMorgan's results were in line with expectations in that, barring any reserve releases (which finally belong to the past) and strong investment revenues (M&A + IPO), traditional activities were far from exciting, while the bank has now to cope with higher wages + higher costs in order to fight against new fintech competitors.

EU BANKS SX7E INDEX – DAILY

Same comment as above.

DAX FUT – DAILY

The situation is unchanged. We just update the levels.

FOOTSIE 100 FUT – DAILY

We will keep a very close eye on the Footsie, which looks ready to break out on the upside. The story is very particular in the UK, whether in terms of fundamentals + index components, and (as already mentioned in mid-August - see our analysis "Watch our for the UK") a catchup would be very welcome, given the lag in terms of valuations and uptrend.

FOOTSIE 100 vs EUROSTOXX – 2-WEEK PERIOD

RSI divergence + 9-demark signal : technicals call indeed for a catchup of the UK on the pair trade above.

10-YEAR US TNOTE FUT – DAILY

The scenario we described last week is unfolding as expected. A negative bias will be maintained as long as the low of wave (1) is intact. Meanwhile, a few days of rebound may develop. Valid as long as the trendline support holds (and confirmation above the 1st key resistance).

DOLLAR INDEX FUT – DAILY

We are going to adopt a wait & see stance for the following reasons: the strong resistance just reached is equivalent to 1/3 retracement of the overall decline from March 2020 to Jan 2021 + we can count 5 uplegs since the bottom of wave B' + wave B' is now equal to 2/3 of wave A'.

In other words, an opportunity to develop a bear scenario (that we continue to favour fundamentally) may again be at hand graphically from the current levels (and despite the recent breakout on the upside). We will get back as soon as we benefit from new clues.

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