# “Central Banks Are In Shock Their Households Are Too Hot, Soon To Be Too Cold And Too Hungry”

## Description

**US PPI was another deflationary surprise yesterday given the 0.5% fall in headline prices m-o-m and the weaker than expected 0.2% rise in core prices. Now pipeline inflation pressures are ‘only’ 9.8% and 5.8% y-o-y, respectively. Even so, the market’s fad for *“sic transitory gloria mundi”* faded yesterday, with stocks failing to hold gains, and US 10-year yields up 11bp on the session and 16bp from their intra-day low.**

This was arguably because oil prices rose sharply again, **Brent up 2% on the day and briefly back above the psychological $100 level, after EIA data showed US gasoline demand was higher than thought (no!) and inventories are worryingly low (no!)** As noted yesterday, all it will now take is the SPR being refilled just before the mid-term elections (no!), and we flip into an energy price reversal (i.e., upwards) just ahead of winter.

And so into a reversal in PPI; and so into a reversal in CPI; and so into a lack of reversal from central banks ahead; and so an imminent reversal in the market fad for “sic transitory gloria mundi” trades. Logically, anyway – but who likes logic? Clearly not markets.

Meanwhile, French and German wholesale electricity prices already continue to hit terrifying new highs daily, and while EU gas shortages might be avoided this winter, it will only be at a very high price.

**In the UK, based on Bank of England (BOE) forecasts, energy bills will soon be equivalent to two full months of average take-home pay.** The Guardian says Chancellor Zahawi has told firms they must “invest their “extraordinary” profits or face the threat of further taxation.”; and the TradeUnion Congress has called for the government to cancel the October energy price cap rise, saying thecost of living crisis this winter is an “emergency of pandemic scale”. UK Treasury officials areapparently considering extending the new windfall tax on oil and gas companies to electricitygeneration. Former PM Brown is calling for the temporary nationalization of energy providers in somecircumstances.
**This is as the most likely next PM is being backed by outright Austrian economists who want to change how the BOE works to stop artificially lowering rates and zombifying the economy.**

The key point is that everyone now sees that supply is the key global issue, not propping up demand by making rich people even richer. **Everyone can also see that the neoliberal Keynesian synthesis (i.e., QE, deregulation, and globalisation) we have relied on for decades is an utter failure in this key regard**. They just don’t know what will work, having read so little of any other schools of economic thought, and are scrambling from windfall taxes, which disincentivise productive investment, to threats of nationalisation, which disincentivises productive investment, to artificially lowering commodity prices, which disincentivises productive investment, to, until now, artificially lowering rates, which, yes, disincentivises productive investment.

*(Global blocs using Hamiltonian industrial policy/mercantilism arguably would work – but we are clearly going to try and fail every other way first, “because markets/economic advisors”.)*

On top of all this, higher energy will mean higher food prices, which are already very high. Indeed, the last US CPI report (with “zero” inflation) saw the food-at-home index, i.e., purchased in grocery stores, jump at an annualized 13.1%, the fastest pace since March 1979.

In short, **it’s the food, the fad, and the fugly.**

As I continue to try to hammer home, **developed market central banks are slack-jawed in shock at the idea of their households suddenly being too hot, soon to be too cold, and too hungry**. They are being forced to actually show that they can and will DO SOMETHING about this – because what else are they for?

Of course, they aren’t doing half as much as they could: the same central banks that love to use their bully pulpit to preach to politicians about policy well outside the realms of the purely monetary are singularly silent in the face of a threat that exposes the vacuity of their shared neoliberal intellectual construct: **where are the calls for industrial policy vs. repeated earlier calls for wage restraint and deregulation?**

However, that means they have to do more on rates: so, less ‘fad’ (i.e., market pricing of a ‘pivot’, and ‘The ecstasy of gold’), and far more fugly (i.e., higher rates as well as high food and energy costs: “Ai ai aiii!” “Waa waa waaaa!”).

Showing them the way, Mexico just raised rates 75bps to 8.50%. No room for a 50bps step there despite US CPI and PPI. Moreover, **Argentina just raised rates *by* 9.5% to 69.50%,** saying, “Prices accelerated in July in the context of greater financial volatility that negatively affected inflation expectations.” No “sic transitory gloria mundi.” Notably, **Argentina now has lower negative real rates than the US or Europe do**

(i.e., its inflation rate is only slightly above the level of nominal interest rates.)

But don’t worry: developed-world central banks will be right behind you, Latin America. Right after their regular weekly two-hour sports massage, mani/pedi, degustation lunch, cheeky beer, and quick cigar, while listening to an audiobook about new-age post-modernism.

**We all wait with bated breath for what messages emerge from the central bank symposium at Jackson Hole from August 25-27.**

Elsewhere, Bloomberg reports President Biden is preparing to run again in 2024. Start with walking up steps first and take it from there, why not? He just managed that fine with his under-investigation son Hunter, as both boarded Air Force One together. Simultaneously, former President Trump is calling the FBI raid on his home a witch hunt, and Attorney General Garland says he personally okayed it (without telling President Biden: because that’s clearly how things work in the real world.) All the garlands, or brick-bats, will now be on Garland, as the evidence, or lack of it, emerges. The Washington Post says the (de?)classified documents that were being searched for apparently relate to nuclear weapons.

Oh, what a joyous celebration of liberal democracy 2024 looks likely to be. Almost as good as 2022 is proving for neoliberal central banks.

Happy Friday.

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1. Economy-Business-Fin/Invest
2. Main
3. NWO-Deep State-Dictatorship-Tyrrany

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