Inflation is coming

Yesterday the MAS in Singapore announced a re-centring of their FX basket and a bias towards a strong currency to counter inflationary pressure. Brazil has a CPI running over 5%, while India’s WPI is near 10% – as is Russia’s. Meat prices are rocketing due to diminished herds. The CEO of Australia’s largest utility expects electricity prices to triple over the next decade. Steel prices will rise sharply due to the 100% increase in coal and iron ore costs, with obvious implications for the prices of manufactured goods. Thermal coal, copper and nickel are soaring, as are Platinum Group Metals. Some independent analysts calculate US CPI at 4% already if the farcical Owner Equivalent Rent is excised from the calculation. So why are forecasters extrapolating low short rates for the foreseeable future? No-one apart from Goldman Sachs can borrow at them anyway (ask the average small businessman or the Greek Government), and yield curves are rapidly starting to resemble the North face of the Eiger. Welcome to the new ‘normal’, where Central Banks remain the only believers in output gap analysis, and where the Bond Market vigilantes are back. You can see inflation everywhere apart from in the official data. Stay long inflation hedges such as Gold, utilities with index-linked asset bases and businesses with monopoly-like pricing power. Avoid bonds like the plague.