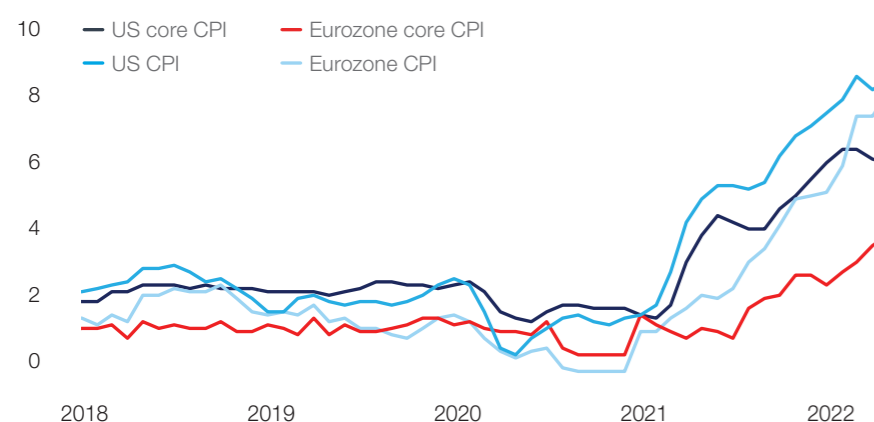


Times are tumultuous and economic woes abound: high inflation, supply chain disruptions, low consumer confidence, foreign exchange issues and more. In spite of all this – or perhaps because of it – it is not so easy to make clear-cut conclusions. Indeed, for some economic indicators, current reality and short-/medium-term forecasts appear to be at odds with each other. So where does that leave us? In this edition of the Economic Brief, we will delve into the topic, with a particular focus on current inflationary trends and interest rates.

## INFLATION

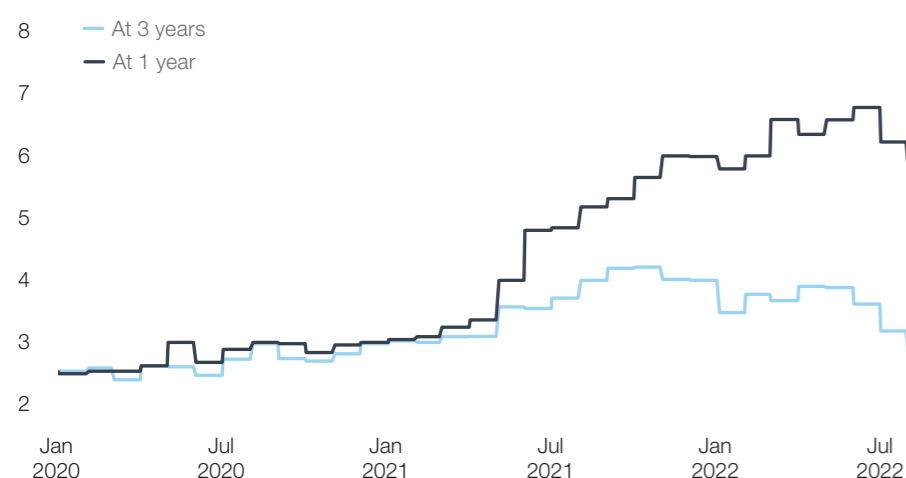
### On both sides of the Atlantic, consumer prices continue to rise



Sources: Accuracy & Macrobond

As we have all been experiencing, inflation is rising and has been since early 2021 for a number of reasons, not least of which the Covid-19 crisis and the war in Ukraine. The graph opposite shows the rise in inflation since 2018 in the eurozone and the US for both general and core (excluding energy and food) indices. Most noteworthy in this graph, however, must be the period of relative stabilisation in the US core index since early 2022, which was disrupted in August by a new increase in inflation once again.

### Inflation expectations fall back: example of US households



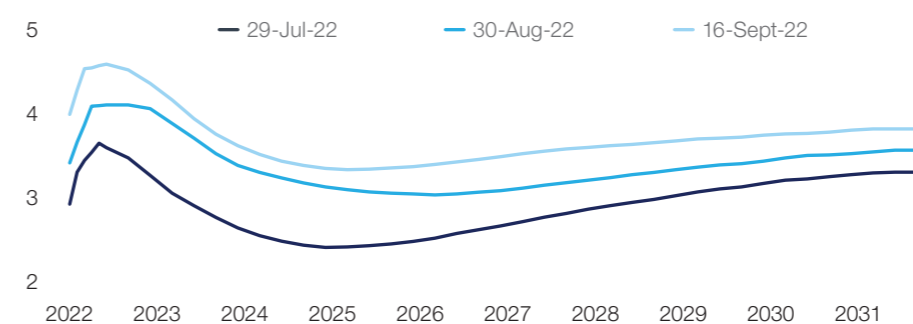
Sources: Accuracy & Fed NY

Despite current figures showing a somewhat negative situation, inflation expectations do not seem to reflect this. The graph opposite shows a study undertaken by the Federal Reserve Bank of New York. In it, we see consumer expectations of inflation in one year's time and three years' time. Expectations for one year appear to have peaked and are now declining, and those for three years' time have fallen below 3%, demonstrating a significant disconnect with the current reality. In short, though current figures exhibit signals of distress, expectations appear relatively calm. So what does this mean? Are we transitioning into a high-inflation regime or not?

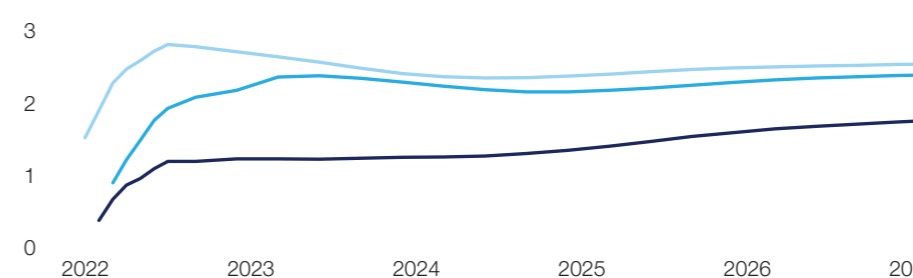
In its latest bulletin, the Bank for International Settlements (BIS) studied indicators to respond to this very question. They found mixed messages: whilst price changes and spillovers between sectors are tending to rise, sensitivity between inflation and wages is trending stable. If we try to extrapolate the current situation to predict what is to come, we obtain a mixed bag. What's more, as uncertainty around the current situation grows, so too does uncertainty in the forecasts... So, in answer the questions mentioned above, the jury is still out.

## INTEREST RATES

### The message from 3-month Eurodollar futures: the Fed's base rate moves ever higher



### The message from 3-month Euribor futures: the ECB will follow the Fed's lead



Sources: Accuracy & Bloomberg

If we take a look at the debt market, what might we infer? The graphs opposite show the three-month futures for Eurodollar and Euribor, showing short-term trader expectations for future interest rates. We observe that in the immediate future, they stand at c. 4.5% and 3% respectively, whereas current base rates stand at approximately 3% and 0.75% respectively. This tells us that we are not out of the woods just yet; the market is predicting a situation that is going to get worse before it gets better. This observation is also in line with the general messages from Central Banks – their current mission is to bring inflation under control, even if that provokes more difficult economic conditions for a time.

In conclusion, it appears that inflation is going to get worse before it gets better, and, as a result, central banks will pursue their strategy of interest rate hikes in their efforts to curtail the rising trends. However, the situation may not be quite so clear-cut – the indicators are not painting a coherent picture when taken together. Only time will tell just where we are heading.