HilltopSecurities

Central Banks Unite in Global Inflation Fight

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

This morning, European Central Bank President Christine Lagarde announced a 75 basis point rate hike, boosting the ECB deposit rate from 0.00% to 0.75%. The largest increase in the history of the European Central Bank follows a 50 bp hike in July which brought the target rate up from -0.50% to 0.00, effectively ending the eight-year negative rate experiment. Clearly, with eurozone annual inflation now at +9.1% *and rising*, the ECB remains well behind the curve. Lagarde said today's move was intended "to dampen demand and guard against the risk of a persistent upward shift in inflation expectations." She also signaled that "several more" increases were on the way.

Inflationary pressure in Europe is expected increase further after Russia announced the Nord Steam 1 pipeline would remain closed until the "collective West" lifts its sanctions against Moscow. The largest gas pipeline from Russia to Europe had been shut down at the end of August for maintenance.

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Yesterday, the Bank of Canada (BoC) increased its key lending rate by 75 basis points to 3.25%. This move follows an unexpectedly large 100 bp increase in July, and brings total tightening to three full percentage points since March. Annual inflation in Canada cooled a bit in July from a 39-year high of +8.1% to +7.6%, but remains far too hot. The Bank of Canada indicated that the overnight target would "need to rise further" to rein inflation in.

With the September Fed meeting less than two weeks away, Chairman Jay Powell spoke this morning at the Cato Institute's monetary policy conference in Washington. Powell doubled-down on the hawkish stance he took in Jackson Hole, reiterating that the Fed hopes to achieve a period of "below trend" economic growth in order to bring the labor market into better balance and keep inflation expectations anchored. He added that the Fed will "need to act now, forthrightly, strongly as we have been doing," and continue "until the job is done."

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Although the bond market has essentially priced-in the third straight 75 bp move, Powell said the decision by the FOMC will be based on the *totality of incoming data*, setting the stage for another critical consumer inflation release next Tuesday. Given the continued decline in energy prices last month, August headline CPI is expected to be *slightly negative*, dragging the annual rate of inflation down from +8.5% to +8.1%. Regardless of the CPI outcome, Fed officials are likely to follow the lead of the ECB and BOC when they next meet.

Inflation is a global problem that's being addressed on a global scale. While aggressive central bank tightening will sacrifice worldwide economic growth in the near term, the unified approach is more likely to achieve the desired inflation outcome.

Market Indications as of 1:01 P.M. Central Time

DOW	Up 106 to 31,687 (HIGH: 36,800)
NASDAQ	Up 9 to 11,801 (HIGH: 16,057)
S&P 500	Up 17 to 3,997 (HIGH: 4,797)
1-Yr T-bill	current yield 3.59%; opening yield 3.56%
2-Yr T-note	current yield 3.49%; opening yield 3.44%
3-Yr T-note	current yield 3.54%; opening yield 3.49%
5-Yr T-note	current yield 3.39%; opening yield 3.36%
10-Yr T-note	current yield 3.29%; opening yield 3.27%
30-Yr T-bond	current yield 3.44%; opening yield 3.42%

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