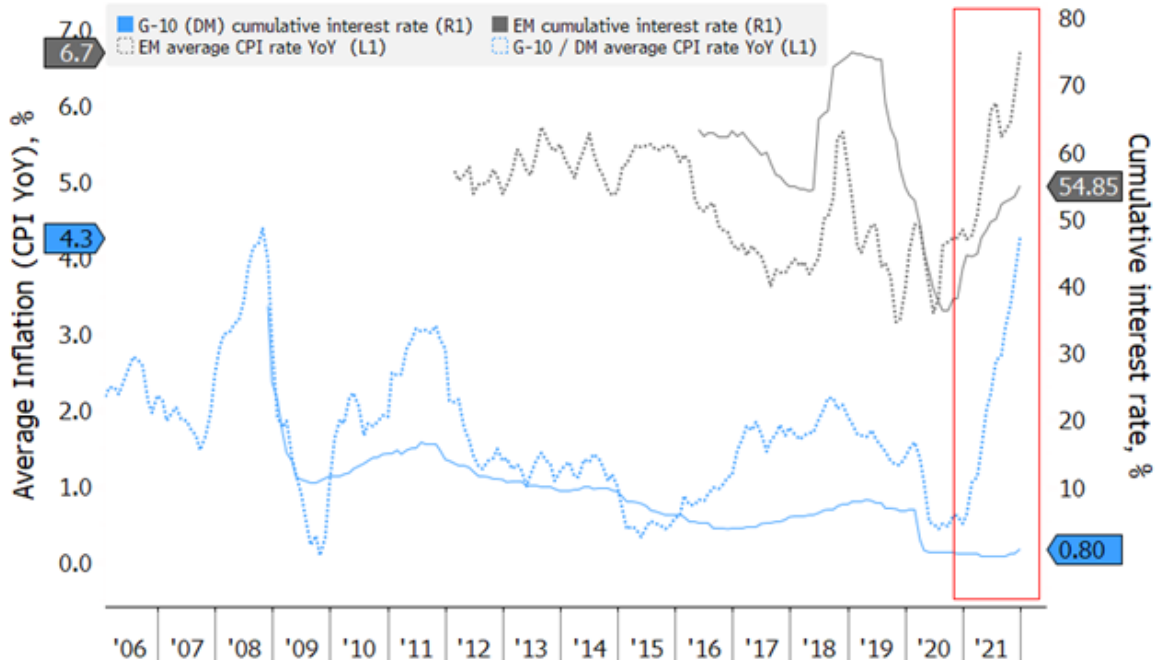


## Chart of the Week: the US Global Central Bank: right now, too little too late?

**EM vs DM Central Bank interest rates vs inflation****...small, even 'token' DM hikes, larger EM hikes, but not keeping pace with inflation**

- The chart above attempts to capture what Gold is telling us the past 3 days since the FOMC. This \$60+ (and counting) gold move since the FOMC, and especially today's strength is blatantly a "gold-specific" move; it's not being spurred on by the US\$ (DXY remains pinned around 96 despite growing bullish rhetoric for 2022) nor by US Treasuries (real or nominal rates remain within recent ranges). Gold has broken through the confluence of 50/100/200 DMAs; XAUEUR (the 'true proxy' of real gold buying as it sidesteps the US\$ influence) is breaking up through short-term resistance and is at MTD highs at €1600
- The thinking is simple; the Fed did not do enough. **Given inflation metrics globally, Gold is signaling that while they think they are acting fast by speeding up the taper to \$30bn/mo, they should be acting faster.** The supposedly shock 3 hikes in 2022 (to 0.75%) is not a big deal; there was even 1 Committee Member who thinks rates will still be at 0.25% by the end of 2022! **Too little too late, and 'Fed report card' assets (Gold) is capitalizing on the window of opportunity until we get to the point where the Fed panics (aggressively hikes rates), by being strangely very bid.**

So the chart below shows this "too little too late theme" by highlighting DM vs EM official interest rates vs inflation:

1. G-10 or Developed Markets (DM) *cumulative* interest rate\* – blue
2. G-10 / DM *average* CPI rate YoY– dotted blue
3. Emerging Market (EM) *cumulative* interest rate\*\* – grey
4. EM *average* CPI rate YoY –dotted grey

**Takeaways:**

- DM inflation is sitting at 4.3% YoY on average, the highest since 2008 (this index peaked then at 4.4% YoY; *yes some individual countries CPI metrics, like the US are at 40yr highs*)
- DM inflation has never been this high, with official DM policy rates this low, ever. Cumulative DM interest rates are only at +0.80% with inflation at 4.3%.
- The 0.8% cumulative DM rate was led by Norges hikes (1x 25bp hike in Sept, 1x in Dec), RBNZ's 25bp hike in Nov, and then the BOE's 25bp hike yesterday. The market responds "is that it"?
- Even the coordinated EM hiking cycle, which took off earlier than the few current DM hikes, is sitting at cumulative ~55% (grey line), a full 20% off of the recent peak tightening rate seen in

2019 (of 75%).

- The difference between EM (6.7%) and DM (4.3%) inflation is only 2.4%, well below the average difference between the two (~3.5%) driven by rampant rich world inflation
- The Fed needs to balance its own dual mandate (price stability and max employment) with the *unofficial* mandate of not triggering a taper tantrum that asymmetrically hurts fragile EM markets (*cracks are already showing, for one – Turkey*)

*\*Each country's interest rate is their own official reference or policy rate*

*DM / G-10 Countries = Australia, Canada, Denmark, Eurozone, New Zealand, Norway, Sweden, Switzerland, UK & US*

*EM Countries = Brazil, China, India, Indonesia, Mexico, Russia, South Africa, South Korea, Turkey & Saudi Arabia. Note, the chart doesn't show the history before 2016 for the Index "EM cumulative interest rate" given Indonesia introduced a new policy rate, the BI 7-Day (Reverse) Repo Rate, from August 2016.*

*\*approved for all external purposes*

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