



AFS Insights

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Headline Sweep

- ECB's Kazimir Faces Growing Calls to Quit After Graft Charge
- Fed Officials Saw Taper Starting in Mid-November or Mid-December
- Summers Slams Woke Fed for Risking Losing Control of Inflation
- China's Factory-Gate Inflation Surges to Highest in 26 Years

When the narrative changes (Again)

- **A great gimmick in the popular fantasy novel series Game of Thrones¹ is that seasons can last years instead of months.** We want to use that analogy to compare the most recent business cycle expansions in the US. The 2009-2019 cycle was unusually long and slow-paced. It might have been the longest expansion on record, but we would have to check the National Bureau of Economic Research (the organization that is tasked with calling business cycle turning points). Your average business cycle expansion probably lasts five or six years before the Fed murders it with over-tightening monetary policy.
- **Because of relatively successful monetary policy by the Fed (relatively!), the 2009-2019 cycle could have easily lasted for a couple of years before the Fed would have killed it off.** Then the pandemic hit. In sharp contrast to the prior cycle, we're now in one of the fastest paced cycles on record. We went from total collapse and hunkering down to reflation. US unemployment soared to 15% and is now below 5%. Deflation/disinflation fears have made way for reflation. Stagflation and labor shortages are now the talk of the town. All within an 18-month period.
- **Earlier this year, we warned that the extreme looseness of monetary and fiscal policy raised the risk of the Fed over-tightening in an attempt to cool the economy down.** We might be about to enter the stage were markets start to fret about over-tightening. The latest price action in the US bond and rates markets show a pattern of brining further forward the timing of the first rate hike while the long end sell-off appears to be stalling.
- **Here's the 1-month USD OIS 1-year ahead.** A relentless increase. No matter the data – payrolls on Friday and CPI yesterday – the only way is up. We're now moving to pricing in two rate hikes a year from now:

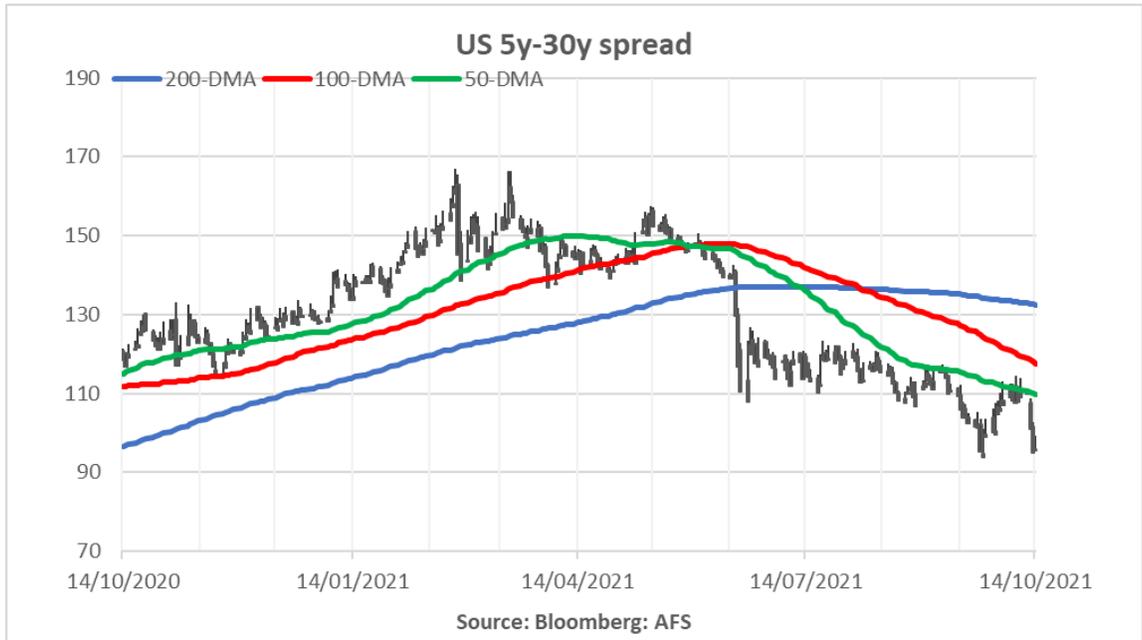
¹ It's actually the Song of Ice and Fire series, but because of the popularity of the TV series everybody refers to the thing as a Game of Thrones.



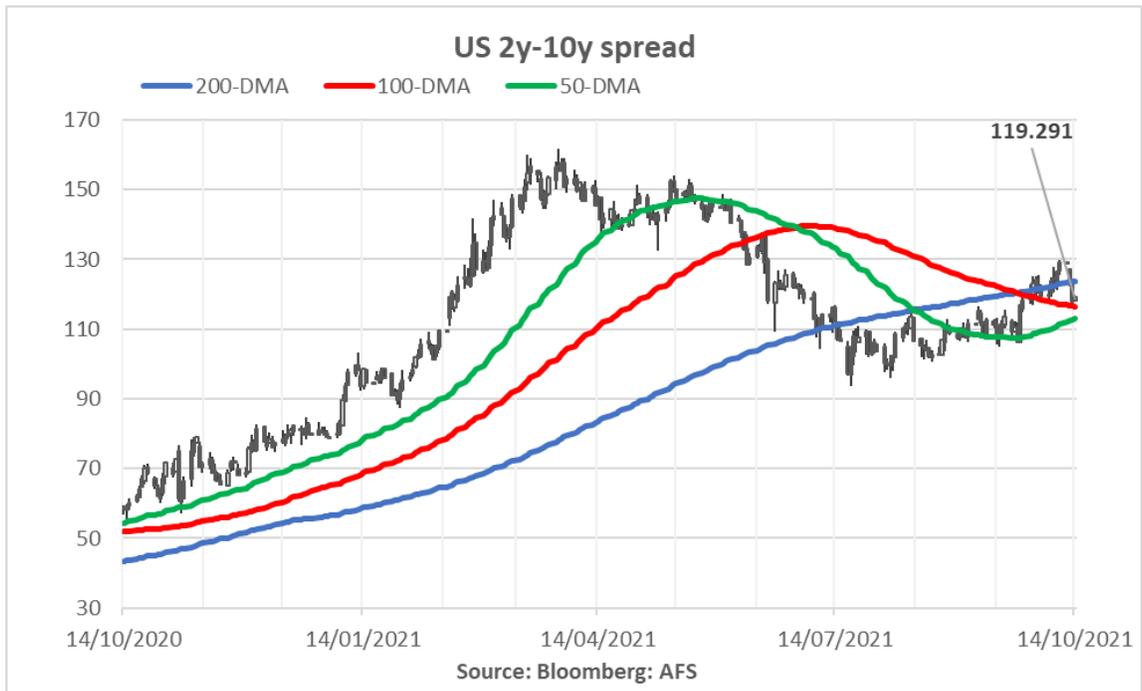
- The long end has been remarkably well behaved. The 10y Treasury yield is actually down a bit over the past five days:



- 5-year/30-year spreads have been in a downtrend for some time, which is a late(r) cycle signal:



- Will the 2-year/10-year spread follow next?



- One thing is for sure: the Fed is hoping and praying that inflation is indeed transitory and – by and large – the result of supply side disruptions and not from hyper-charged and over-stimulated demand. If it is the latter, the greater the risk the Fed slams the brakes and sends the economy in a tailspin, with all too predictable consequences.

Calendar

TIME	REGION	EVENT	PERIOD	CONSENSUS	PRIOR
09:00	Spain	CPI EU Harmonised MoM	Sep F	--	1.10%
09:00	Spain	CPI EU Harmonised YoY	Sep F	--	4.00%
11:00	Ireland	Sells Bonds			
12:10	UK	BOE's Tenreyro speaks.			
14:30	US	Initial Jobless Claims	Oct-09	320k	326k
14:30	US	Continuing Claims	Oct-02		2714k
14:30	US	PPI Final Demand MoM	Sep	0.60%	0.70%
14:30	US	PPI Final Demand YoY	Sep	8.7 0%	8.30%
14:35		Fed's Bullard Speaks			
16:00		Fed's Bostic Takes Part in Panel on Inclusive Growth			
16:40		BOE's Catherine Mann speaks on Covid-19			
17:30	US	Sells 4-Week; 8-Week Bills			
18:00		New York Fed's Logan Gives Speech on Policy Implementation			
19:00		Fed's Daly Speaks			
19:00		Fed's Barkin Gives Speech			
20:00		BOE's Cunliffe Speaks			
		Federal Reserve weekly balance sheet			

Consensus data: Bloomberg News; All Times Are in Central European Time

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