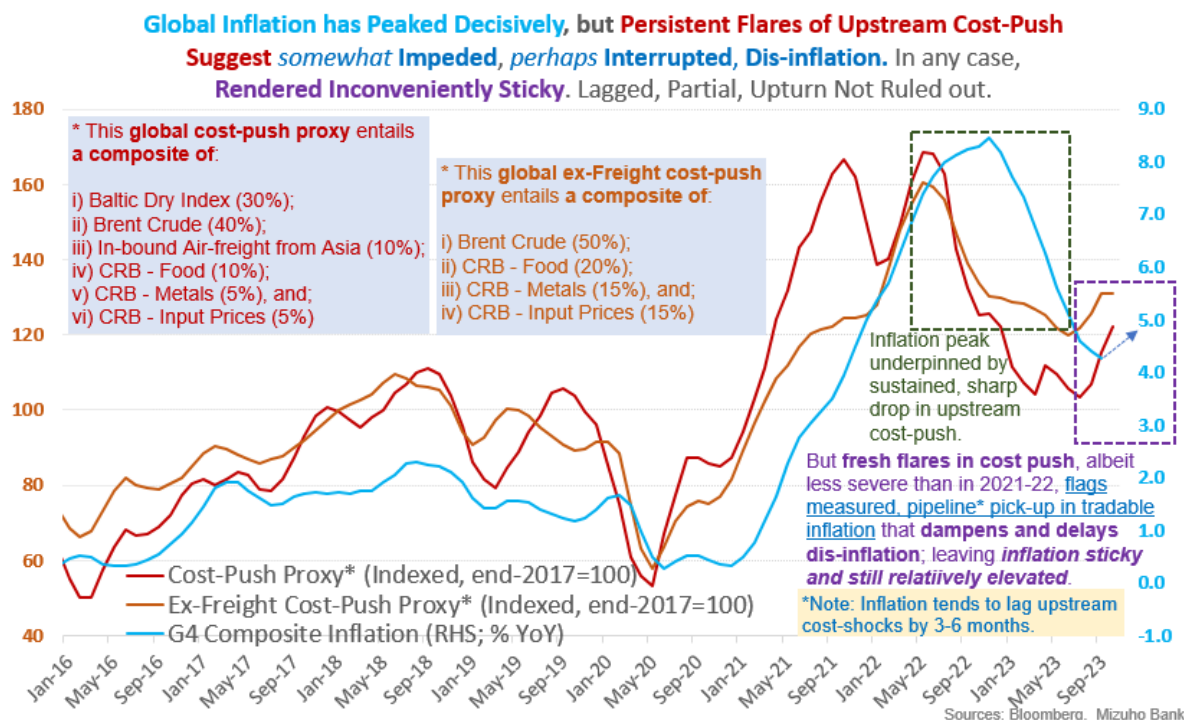


Inflation Relief & Risks: The Good, The Bad & The Ugly



“When you have to shoot, shoot. Don’t talk.” - Tuco, The Good, The Bad & The Ugly, 1966

- **The Good:** What’s *unambiguously positive* is that **global upstream cost factors** in aggregate suggest t **inflation has decisively peaked**; as *post-pandemic normalization* has significantly *ameliorated acute supply-chain kinks* that had amplified a conspiracy of cost shocks. Moreover, significant dis-inflation is predominantly **from healthy supply-side adjustments**; which are *accretive for economic activity*.
- **The Bad:** *But* significant as **dis-inflation** may be, it is simply **insufficient**. Fact is, *price pressures are uncomfortably elevated*; at about double 2% targets. Crucially, **susceptibility to fresh flares of cost shocks, fuelled by intensifying geo-political risk**, warn of **stickier inflation**; as **dis-inflation is neither uninterrupted nor unimpeded**. Moreover, *low visibility on inflation risks ahead* after *being wrong-footed by no-so-transitory inflation surge* incentivizes *hawkish over-correction*. So, the **pain of demand destruction** may be deemed *unavoidable panacea to tame inflation*.
- **The Ugly:** What’s **ugly thing** is, *despite ultimately deflationary (demand-side) consequences* of adverse, income-eroding cost shocks, the **tyranny of interim over-tightening** becomes harder to avert. Especially *as a conspiracy of political sensitivities to the cost-of-living crisis* and *macro stability risks amplify pressures to visibly tackle persistent inflation risks*. As a result, the **odds of lurching from lofty inflation to the depths of a recession rise, punctuated by policy dilemma**.
- **Policy, Yield & FX:** Consequently, **risks of sharper policy inflection** are **magnified**; *accentuating volatility in UST yields*. That said, **relatively higher US buffer to war-related energy price shocks** juxtaposed against **US exceptionalism** (economic resilience), **underpin USD strength**. In particular, *as the Fed is deemed to be better equipped to “just shoot”*.

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