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Weekly Commentary

Issue **No. 36** | **NOVEMBER 21, 2022**

Macro View

By Hubert Marleau

Mounting Evidence for the Peak Inflation Narrative

Submitted November 19, 2022

I'm presently on a holiday until December 15, bathing under the Caribbean sun in one of Bernard Arnault's hotels. For the next few weeks my commentaries will be short and sweet.

As you know, I've been of the view for several months that peak inflation is behind us and the trend has turned. In this regard, I shall report only on key economic prints to see whether my aforementioned conjecture is holding up. At this time, it seems so.

The October Producer Price Index report was up only 0.2% m/m versus last month's pace of 0.4% and significantly less than the 0.5% consensus. On a year-over-year basis, it was up 8.0% compared to 8.5% in September and views of 8.3%, with the 6-month and 3-month annualized rate down to 3.4% and 1.6% respectively. The core rate, which excluded food and energy, was flat versus last month's 0.3% and expectation for 0.4%. It was, however, up 6.7% from a year ago. Meanwhile, import prices in October fell 0.2% m/m, registering a 4th consecutive decline and a 3-month annualized rate of minus 9.6%.

The other big news of the week was existing-home sales data from the National Association of Realtors, which showed an October decline of 5.9% from the prior month. It was the ninth month straight of decline.

Over the past six months, the U.S. money supply suffered a sharp reversal, declining at an annualized rate of 2.5%. According to my rough calculation, if the money supply were to contract another 3.5% over the next 12 months, a normal relationship between money and the economy would in some degree be reestablished. In other words, money would be at a level where it ought to be for a return to economic normalcy. In my judgement, it's achievable because the policy rate is approaching neutral and the yield curve is inverted. Given that the Fed is scaling down its base monetary base through quantitative tightening and the private banks are protecting their capital ratios by tightening their lending standards, the U.S. money supply is likely

Macro View cont.

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to decline further. Perhaps the above monetary observation explains why forward inflationary expectations of 2.2% to 2.7% are holding water. The stock market is telling us that the figures with which the Fed is working could change rapidly if inflation were to decelerate at a fast pace, as monetary theory suggests. It may also account for its stubborn resistance to the hawkish rhetoric of Fedspeaks and the devastating collapse of FTX. In the past week, the S&P 500 shed only 27 points or 0.006% to end at 3962.

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Disclaimer:

PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188
F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110
F. +1 (647) 343-7772

www.palos.ca