

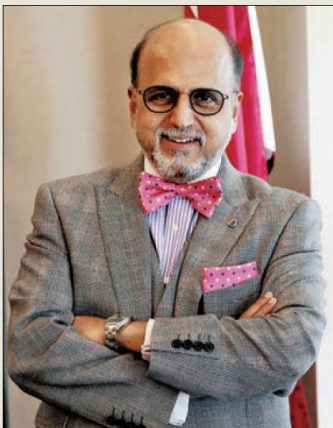
BANKING ON KNOWLEDGE

Inflation fears emerge in global markets

By Dr R Seetharaman

The data released last week reflected that US inflation surged in April 2021 from a year earlier as the economic recovery picked up. Consumer prices jumped 4.2% in the 12 months through to April 2021, up from 2.6% in March 2021 and marking the biggest increase since September 2008.

Inflation, which measures the rate at which the prices for goods and services increase, was pushed up by higher prices for cars and food in April 2021. In addition to rising prices, one of the main reasons for the big annual gain was because of base effects, meaning inflation was very low at this time in 2020 as the Covid pandemic caused a widespread shutdown of the US economy. The "core price index", which strips out food and energy costs that can be more volatile, increased 3% in



April from the year before. Inflation is breaching the Federal Reserve's target of 2% and this has raised fears it might need to raise interest rates to

cool things down. The US markets fell more than 2% last Wednesday. The US dollar index surged to 90.77 as selling pressure persisted in stock markets following the Labor Department's report on consumer prices. The yield on the benchmark 10-year Treasury note rose to 1.686%. The yield on the 30-year Treasury bond gained to 2.386%. Manufacturers across the globe are facing headwinds from surging commodity prices, rising shipping costs and semi-conductor shortages, fuelling worries that global inflationary pressures are looming as big economies recover from pandemic lockdowns. Copper has led the rally among industrial metals and has driven raw materials such as Iron ore and nickel. The global campaign to cut carbon emissions and limit climate change is one factor pumping up commodity prices. Copper, the best electrical conductor behind

the precious metal silver, has led the global commodity surge, as its crucial role in the green energy transition is set to underpin longer-term gains. A semiconductor chip shortage has hampered new automobile production worldwide, driving buyers to seek out alternatives in the pre-owned market. International food commodity prices rose for the 11th consecutive month in April 2021, with sugar leading the increase and cereals resuming their upward trend, the Food and Agriculture Organisation of the United Nations (FAO). China's factory gate prices rose at the fastest rate in three and a half years in April 2021 as the world's second-largest economy gathers momentum after strong first-quarter growth. China's producer price index (PPI), a gauge of industrial profitability, rose 6.8% in April from a year earlier. However, the consumer price index



(CPI) rose by a mild 0.9% on year, held down by weaker food prices. Chinese authorities have repeatedly said they will avoid sudden policy shifts that could derail economic recovery. India's wholesale inflation in April 2021 quickened at the fastest pace in more than a decade on the back of higher commodity prices and a low base last year. It rose 10.5% in April 2021 from a year earlier. Unprecedented stimulus measures and vaccine rollouts in developed economies are fuelling prospects for a resurgence in demand that may push prices still higher. The surge in raw material prices is stoking fears of inflation. The key question for is whether the price increases will be short-lived or change into long lasting, broad-based inflation. The recent raw material price surges reflect growing market anxiety about the policy impacts, and warned policymakers

to make long-term arrangements to gradually advance decarbonisation efforts. Central bankers - particularly at the US Federal Reserve - insists inflation is likely to be transitory and will not push them to an early unwind of the massive monetary stimulus actions they launched last year to combat the fallout from the pandemic. However a prolonged period of inflation could hamper the post-pandemic recovery, potentially forcing the Fed and other central banks to quickly tighten its monetary screws. Hence the forthcoming monthly inflation data will be looked by the Fed and other central banks for considering necessary actions. The financial markets are expected to be volatile on account of inflation fears.

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