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Flash Note
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Back to the quadrant we should never have come out of

China started 2016 with the same fears that were in place in 2015: Chinese Stocks crashing, Copper sinking (used as collateral in loans), the first developers' bankruptcies, etc... This led to a vast fiscal and monetary stimulus provided by Chinese authorities. Funds that were channeled through the state-owned companies primarily (big consumers of raw materials), which in turn resulted in a strong rally in commodities globally (Iron Ore +45%, Oil +89%, CRB +26%). A trend that was transmitted to the international inflation indexes in the western economies, making China the largest exporter of inflation worldwide.

Once these stimulus have been withdrawn in China (fiscal stimulus were cut last summer and monetary conditions have been gradually tightened in winter), I wonder what will be the engine for the global “reflation trade” that financial markets have been enjoying since the second half of 2016. If you look at the attached table, you will see how surprisingly prices show a certain resistance to continue to rise, even falling in most countries that have published today. The evidence of what I say is true? Who knows.

If this is true, we would be back (within my 4-quadrant framework) to the quadrant we should never have come out of: This is, **low prices with positive (though moderate) global activity**. The framework I call "deflationary boom," which is conducive to sustained risk assets and upward trend in bond prices.

Can bond markets –today priced for perfection- respond quickly to this hypothetical environment that I propose to you? Not surprisingly, global bond markets were slow to catch on to the fact that the Chinese government was stimulating its economy. The fears about China persisted and this drove the 10Y UST down from 2.25% to 1.75% in 1Q16. Then came the big surprise of the year –namely, the Brexit vote- that pushed yields even lower (to 1.4% in July). But international bonds did eventually realize the upward trend in global prices (resulting from the vast stimulus in the Asian giant) and started to experience increases in yields in July, which accelerated with the victory of Mr. Trump.

Well, I fear that global bond market may be slow again to catch on the fact that "the reflation trade" is temporary and may be at its end.

Economic Events Monitor | StreetEvents Economic View | Thomson Reuters Eikon **30-Mar-2017 12:00**

Economic Events List

Classifications	Country	Event Name	Period	Unit	Actual	Prior
IDN ID						
Other	Germany	Germany-NW State CPI - NW State CPI YY*	Mar. 2017	%	1,7	2,3
Other	Germany	Germany-NW State CPI - NW State CPI MM*	Mar. 2017	%	0,1	0,6
Other	Germany	Germany-HE State CPI - HE State CPI YY*	Mar. 2017	%	1,7	2,5
Other	Germany	Germany-HE State CPI - HE State CPI MM*	Mar. 2017	%	0	0,6
Other	Germany	Germany-BY State CPI - BY State CPI YY*	Mar. 2017	%	1,7	2,1
Other	Germany	Germany-BY State CPI - BY State CPI MM*	Mar. 2017	%	0,4	0,6
Other	Germany	Germany-BB State CPI - BB State CPI YY*	Mar. 2017	%	1,4	2
Other	Germany	Germany-BB State CPI - BB State CPI MM*	Mar. 2017	%	0,3	0,5
Other	Germany	Germany-SN State CPI - SN State CPI YY*	Mar. 2017	%	1,8	2,4
Other	Germany	Germany-SN State CPI - SN State CPI MM*	Mar. 2017	%	0,2	0,5
Prices	Spain	Spain-Inflation Prelim - HICP Flash YY	Mar. 2017	%	2,1	3
Labour Market	Italy	Italy-Wage inflation - Wage Inflation YY	Feb. 2017	%	0,3	0,5
Labour Market	Italy	Italy-Wage inflation - Wage Inflation MM	Feb. 2017	%	-0,1	0,1
Surveys & Cyclical	Eurozone	Euro Zone-PMI Flash - Markit Comp Flash PMI	Mar. 2017		56,7	56
Surveys & Cyclical	Eurozone	Euro Zone-PMI Flash - Markit Serv Flash PMI	Mar. 2017		56,5	55,6
Surveys & Cyclical	Eurozone	Euro Zone-PMI Flash - Markit Mfg Flash PMI	Mar. 2017		56,2	55,5

Regards,

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