



Summary

- January and February inflation data show mixed progress for the Fed, although seasonality effects mean we may be in for softer readings moving forward
- Despite supply disruptions, import prices remain stable; Chinese deflation and Yuan devaluation continue to push import prices from China lower
- The post-COVID surge in job openings created labour demand imbalances, driving wage inflation higher. However, since 2022, wage pressures have eased due to large increases in labour supply
- Financial markets are showing concern over the Fed's tolerance for higher inflation, as indicated by increased inflation volatility and rising breakeven rates
- The RRP has halved since the start of the year, driven by increased share of bill issuance. However, with negative bill issuance expected in Q2, liquidity may tighten
- Delinquency rates on auto and credit card debt have now surpassed pre-COVID levels. Financial strain is evident among younger and lower-income households

About this document

US Inflation Watch presents 18 charts comprising key inflation indicators grouped into five categories including consumer/producer price inflation, commodity prices, wage inflation, inflation expectations and monetary indicators.

Contents

Price Inflation

Consumer Price Inflation.....	2
Producer and Import Price Inflation.....	3

Commodity Prices

CRB Index.....	4
----------------	---

Wage Inflation

Employment Cost Index and Hourly earnings.....	4
JOLTS and quits rate.....	5

Inflation Expectations

Consumer inflation expectations.....	6
Market inflation expectations.....	6

Monetary Indicators

Money Supply.....	7-8
Consumer Credit.....	9-11

Appendix

An explanation of money and the monetary framework.....	12-13
---	-------

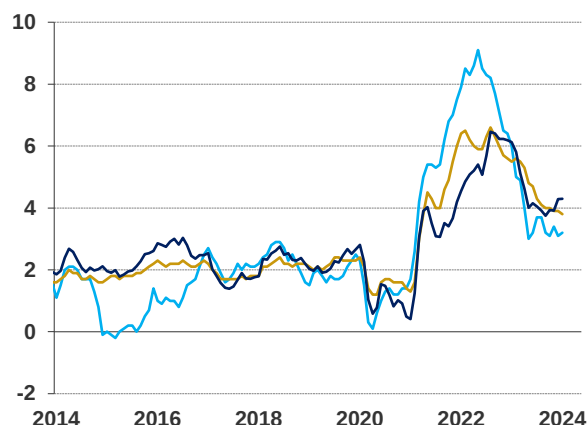
The Importance of Inflation

Inflation is the single most important indicator when measuring real wealth as it determines what wealth can buy i.e. purchasing power. If 'nominal' wealth doubles over 25 years but the level of prices also doubles, there is no net gain in 'real' wealth. It only takes annual inflation of 2.8% to cause a doubling in prices over 25 years.

About Altana Wealth

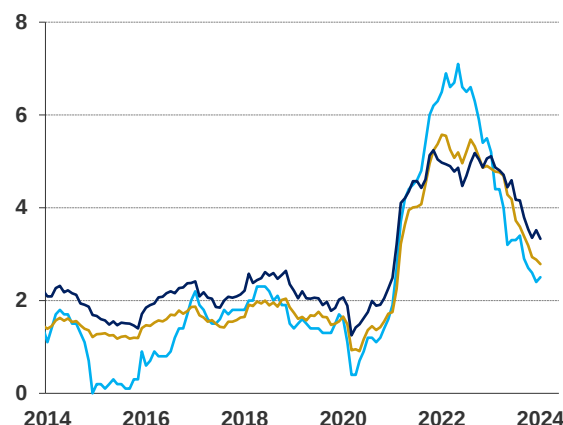
Altana Wealth is a specialist fund manager focused on delivering alpha where we have a competitive edge from niche strategies. As co-investors in all our funds, our interests are aligned with those of our investors. Altana was set-up by Lee Robinson, co-founder of highly successful Trafalgar Asset Managers in 2010. Our funds have won multiple performance awards over the last few years.

Consumer prices as measured by CPI (% y/y)



— Total CPI
— Core CPI
— Core CPI Services (ex-housing)

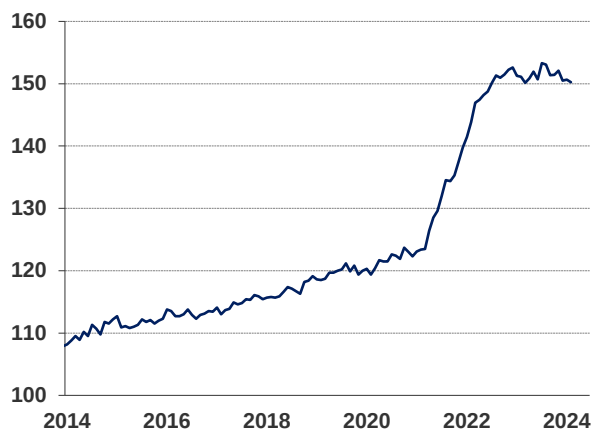
Consumer prices as measured by PCE (% y/y)



— Total PCE
— Core PCE
— Core PCE Services (ex-housing)

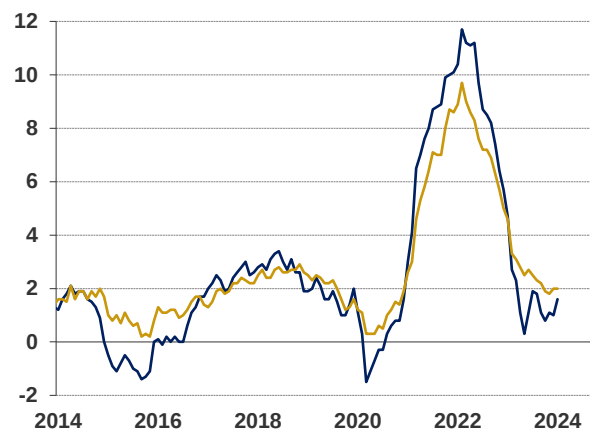
Current status: January and February inflation numbers were less constructive for the Fed, with the disinflation progress from the second half of last year encountering some bumps. Headline inflation looks to have bottomed for now as energy prices rise, whereas core CPI's decline has slowed. Supercore CPI has started to inflect upwards, indicating continued strength in the services sector, although supercore PCE does not reflect the same degree of strength. As a reminder, the Fed targets core PCE but also closely monitors core PCE services ex-housing for a better gauge of inflationary pressures in the more labour-intensive sectors of the economy. This measure continues to decline, albeit at a slow pace. Core PCE rose 0.42% m/m and 0.26% m/m in January and February respectively. These are strong numbers and not consistent with the Fed's inflation target. However, January and February numbers are affected by residual seasonality issues linked to the way new prices are set at the beginning of the year. Businesses typically use the new year as an opportunity to raise prices. As a result, we should expect March and April inflation numbers to come in softer. For the Fed to begin easing in June as the market currently anticipates, m/m core PCE readings would need to average 0.2%-0.25% m/m over the coming months. Anything higher than this would support the idea that the disinflation process has not only encountered obstacles along the way, but possibly stalled.

Producer prices (index)



— PPI Trade Services
(the margins of retailers & wholesalers)

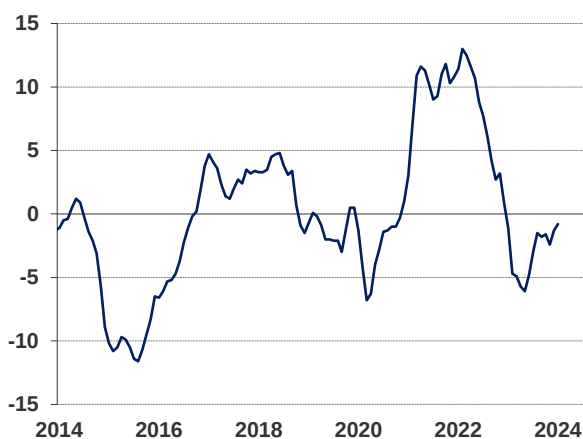
Producer prices (% y/y)



— PPI final demand
— Core PPI final demand (ex-food and energy)

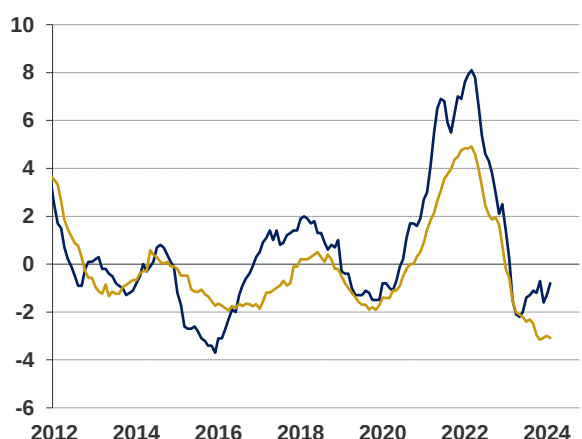
Current status: Headline PPI saw notable increases in January and February, mainly driven by goods prices, particularly in energy and food sectors. Energy prices increased 4.4% m/m, with gasoline prices leading the rise. On a three-month annualized basis, goods prices have risen above the Fed's 2% target. That said, core goods prices remained relatively stable, suggesting subdued supply disruptions. Core services also continued to moderate, indicating a slower pace of increase. However, travel accommodation services have seen strong demand, which points to continued strength in services consumption, potentially impacting consumer prices in coming months.

Import Prices (% y/y)



— Import prices

Import Prices – core and China (% y/y)



— Core import prices (ex-fuels)
— Import prices of Chinese goods

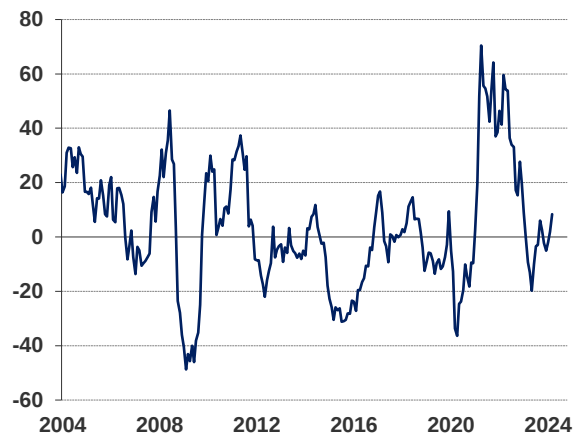
What is this data? Producer price indices refer to prices set by domestic producers only, so Import Prices are also monitored to gauge price pressures entering the system from abroad. Import price data excludes tariffs.

Current status: Import prices are not rising as much as feared given recent supply disruptions and higher shipping costs. Excluding fuel prices, all other price components saw slower monthly increases, notably in autos and consumer goods. Import prices of Chinese goods remain depressed, with Chinese deflation continuing to pass through into cheaper goods prices. China's currency devaluation against the dollar is also playing a role, making Chinese exports cheaper for foreign buyers and exerting downward pressure on prices of similar goods domestically or imported from other countries. This will help in maintaining low US goods inflation.

CRB-TR/J Commodity Price Index



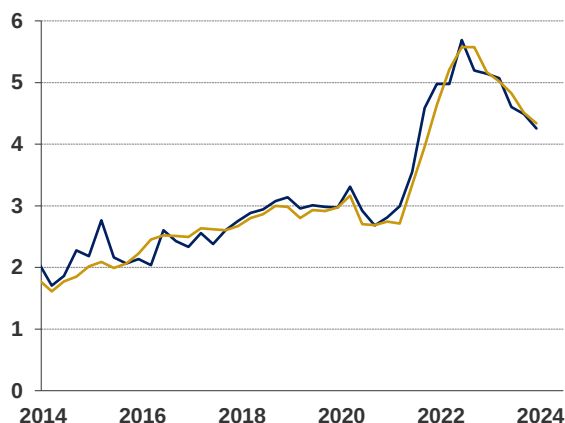
CRB-TR/J Commodity Prices (% y/y)



What is this data? CRB Index is a basket of commodity prices - a timelier indication of Crude PPI.

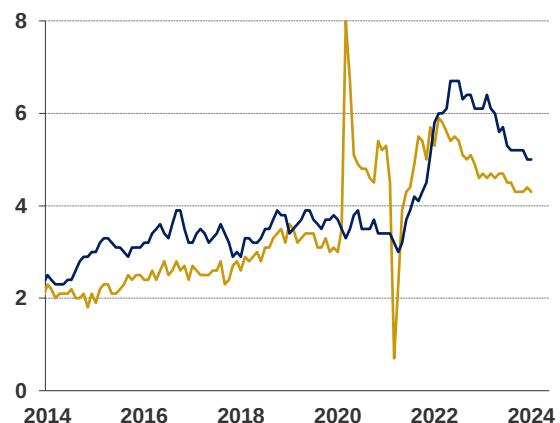
Current status: Commodity prices are now up 2% y/y and will likely continue to show strength over the coming months due to large negative base effects from Q2 2023. Most of the gains in commodity prices were led by oil, which rose 5% and 2% respectively in January and February. Ongoing geopolitical uncertainty, a tight supply backdrop, and bearish investor bets have acted as tailwinds to price action. Industrial metals on the other hand, remain under pressure. Copper prices were down throughout January and February, while iron ore saw a sizeable decline in February (-8.4%) as rising inventories coincided with disappointing Chinese construction and manufacturing activity.

Employment Cost Indices (% y/y)



— Wage & Salaries (private sector)
— Wage & Salaries-ex incentives (private sector)

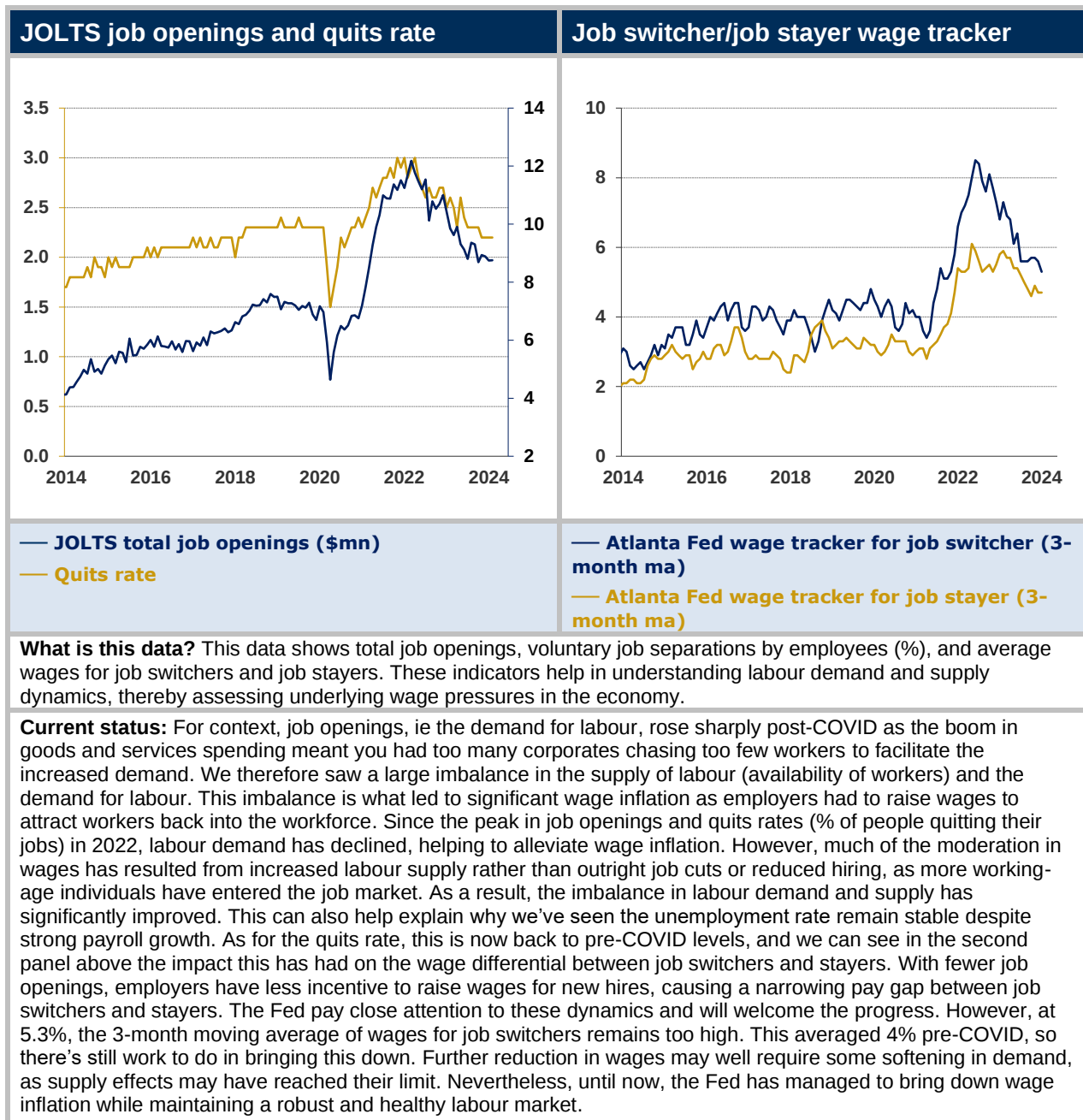
Hourly Earnings

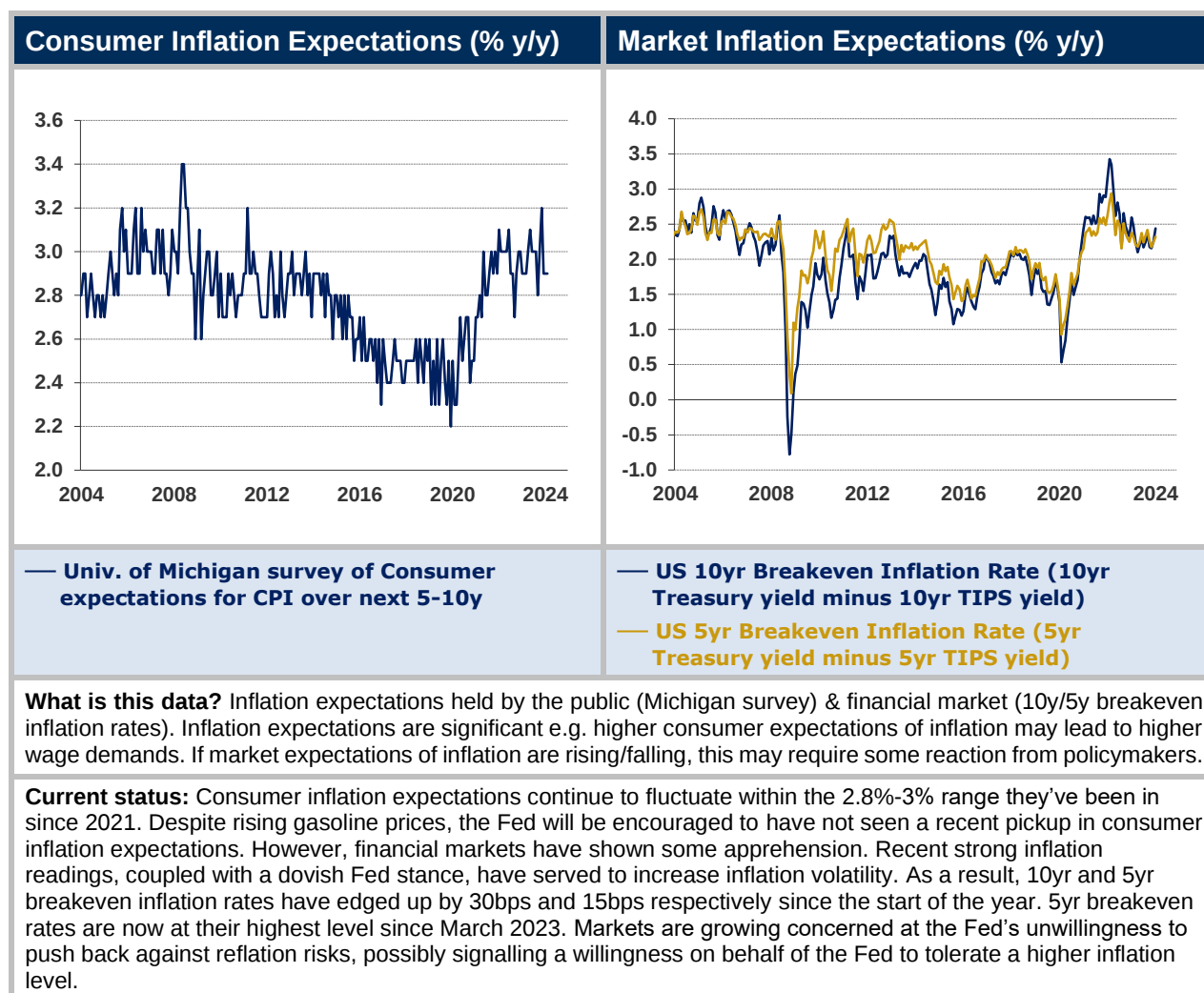


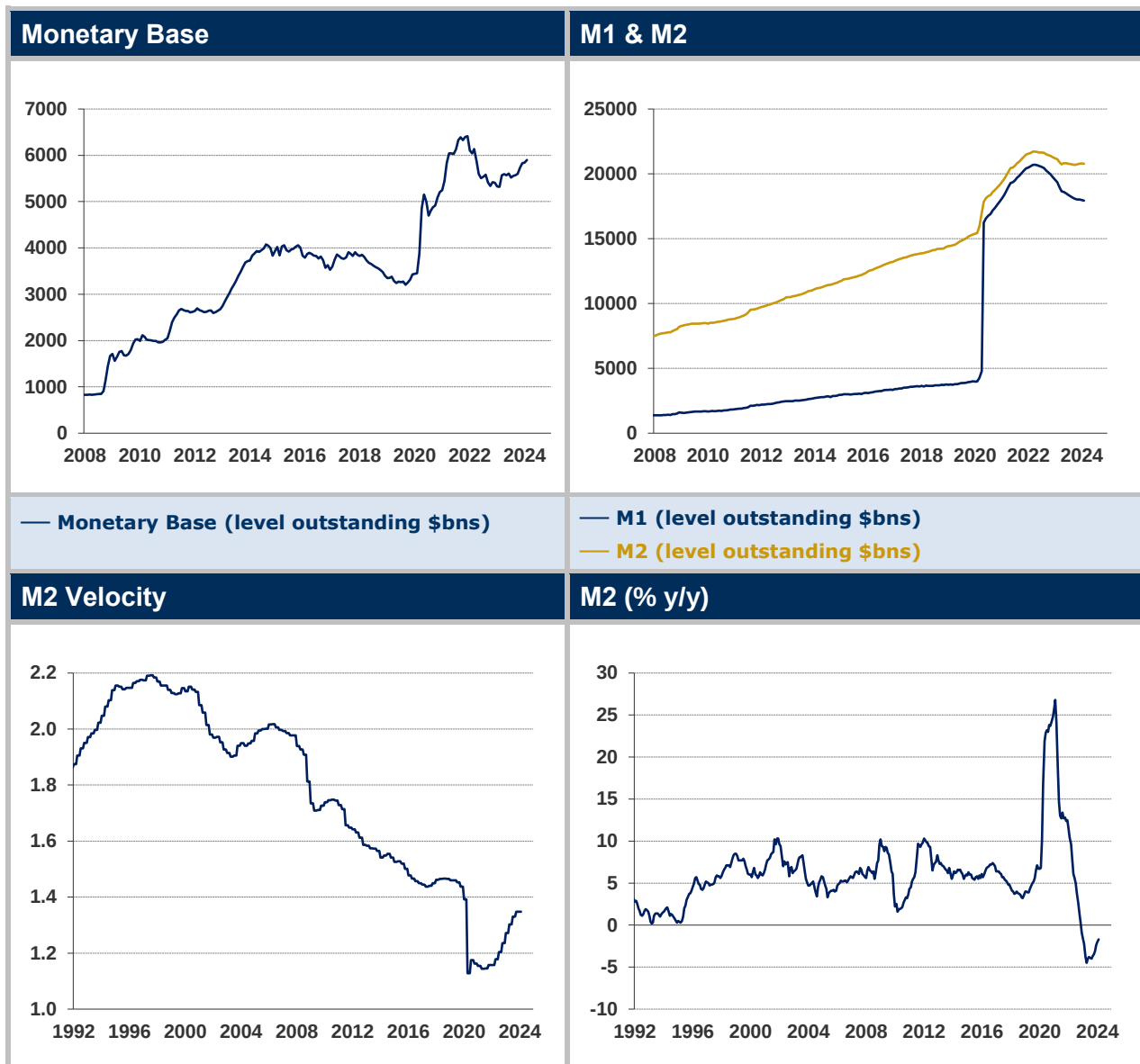
— Atlanta Fed Wage Growth (3-month ma)
— Average Hourly Earnings % y/y (private sector)

What is this data? The Employment Cost Index (ECI) is the total cost of employing workers (wages, salaries, benefits) and is quarterly – just wages and salaries components are shown above; 'hourly earnings' is monthly. The Atlanta Fed Wage Growth Tracker shows the 3-month moving average of annual wage growth, a tool developed by the Federal Reserve Bank of Atlanta.

Current status: Despite the uptick in overall inflation readings, there appears to be little upward pressure on wages. The Atlanta Fed wage growth tracker and average hourly earnings closely track each other, showing the continuation of easing wage pressures. However, as previously noted, the pace of decline has slowed, and annual wage growth remains above the Fed's 3% target.







About the data

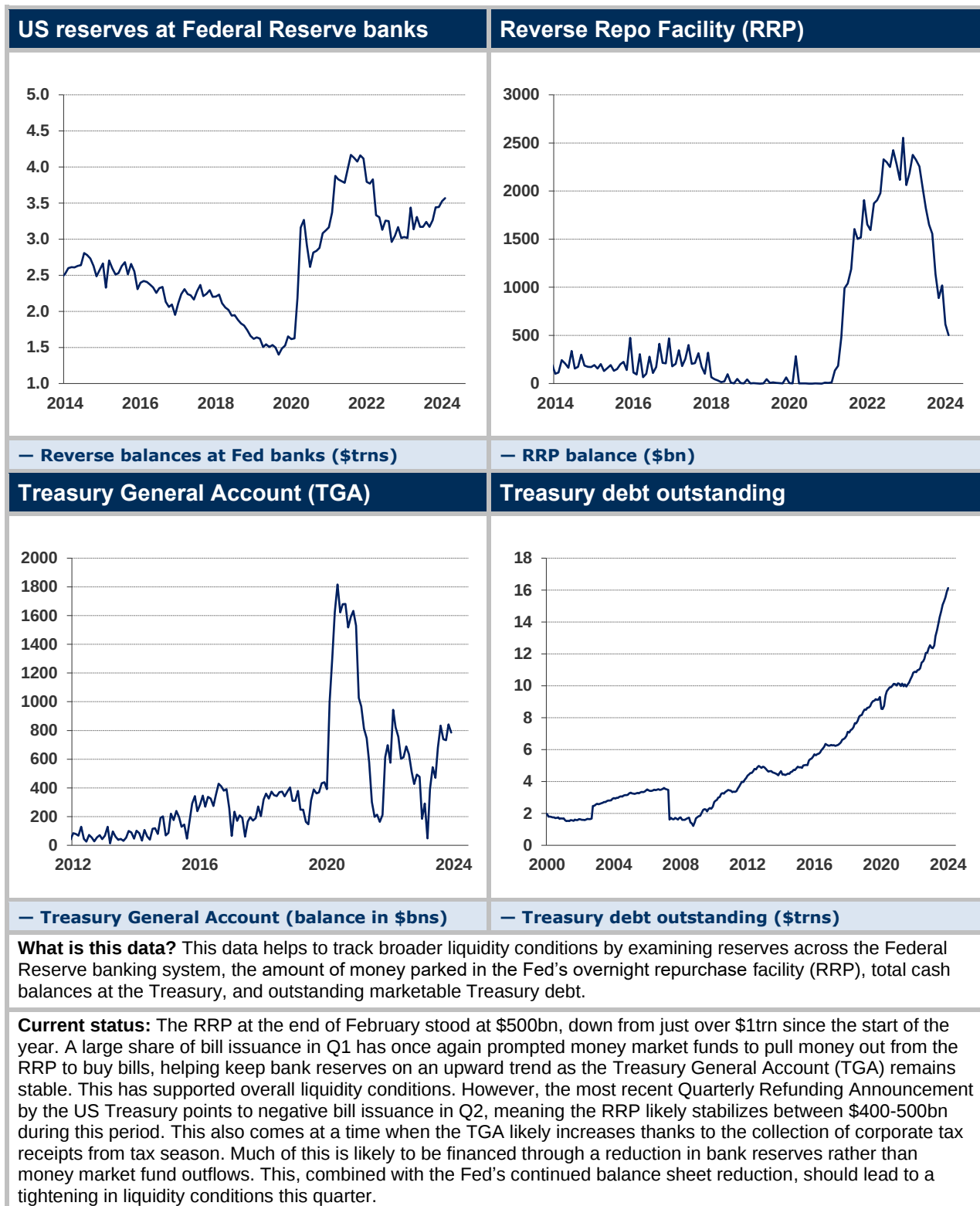
Monetary base = M0 (or notes & coins in circulation) + notes & coins held by banks and the central bank + bank reserves held by the banking system at the central bank. **Note:** the last two items are *not in circulation*

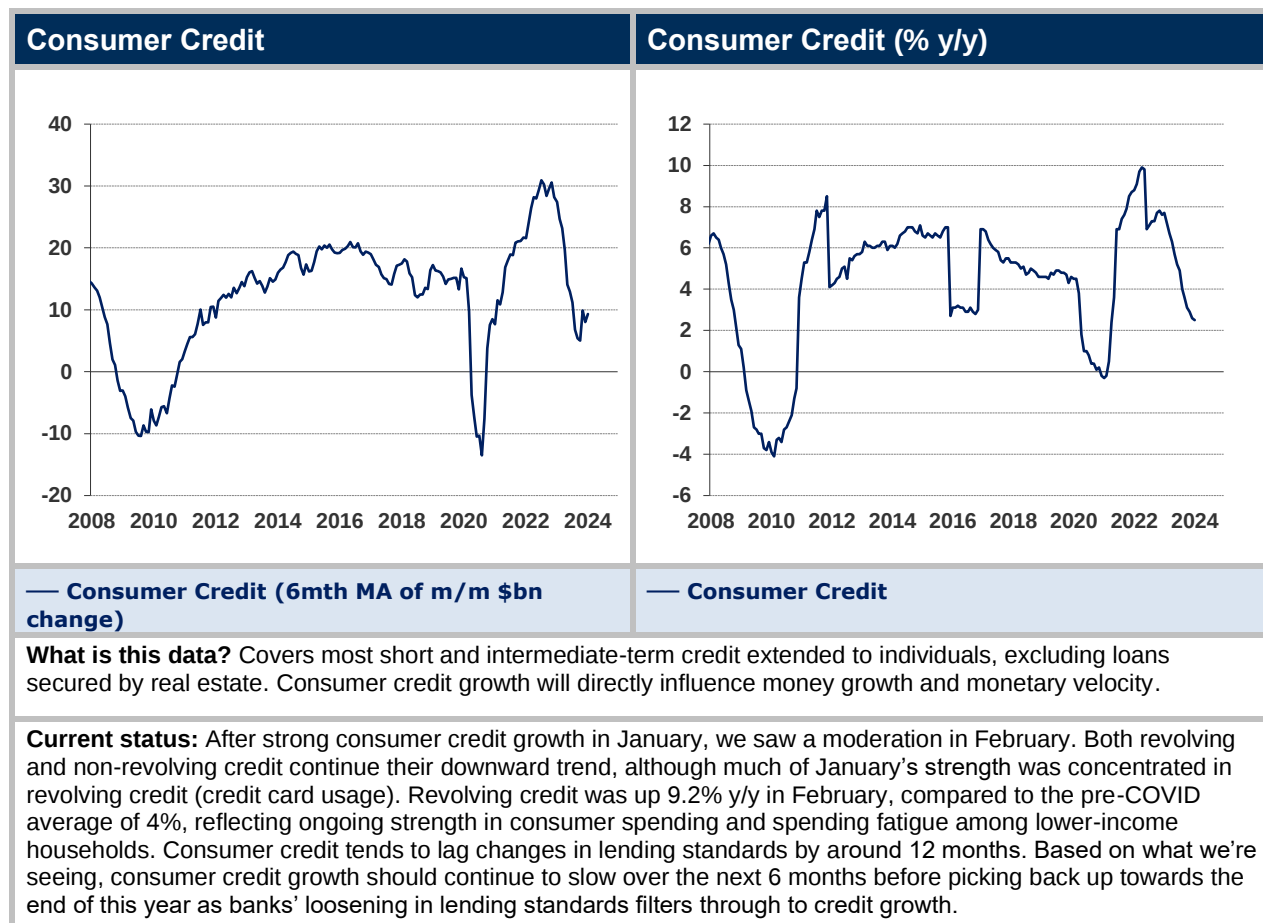
M1 = M0 + demand deposits + other checkable deposits (inc savings deposits previously in M2 – recently revised)

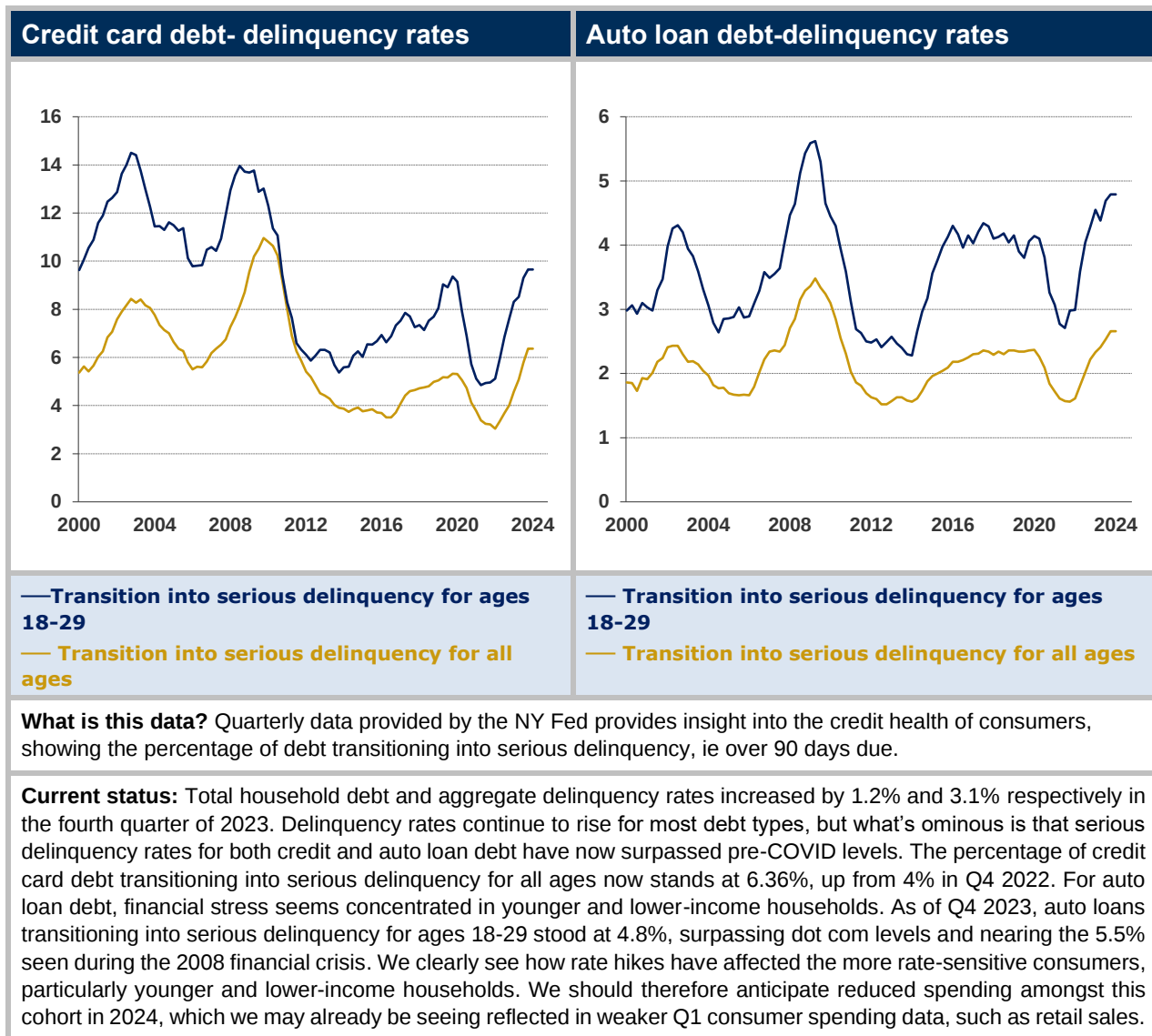
M2 = M1 + time deposits < \$100k + retail money funds.

M2 Velocity = Nominal GDP/M2 shows how often the money stock is used for spending on goods & services and is inversely related to the 'demand for money' i.e. holding that money rather than exchanging it for goods and services.

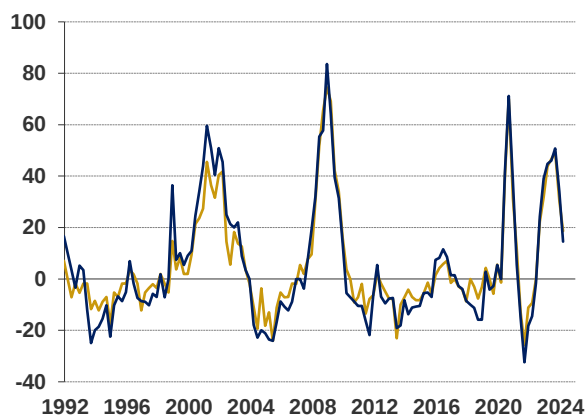
Current status: The monetary base continues its uptrend as liquidity conditions improve, thanks to the buildup in bank reserves caused by the drawdown in excess cash held at the RRP. However, this will face some resistance in Q2, as mentioned in the next section. The decline in M2 now looks to have stopped, confirming the good financial position of households, who currently have less of a need to draw down on savings. The US personal savings rate as a percentage of personal income is now down to 3.6%, the lowest level since December 2022. Inflows into money market funds continue, albeit at a much slower pace than seen throughout the first half of 2023. US bank lending remains strong, with broad credit growth across all loan types, particularly in real estate and consumer loans. Loan extensions for residential real estate were particularly strong, as lower mortgage rates are helping stimulate housing activity in the existing home market.





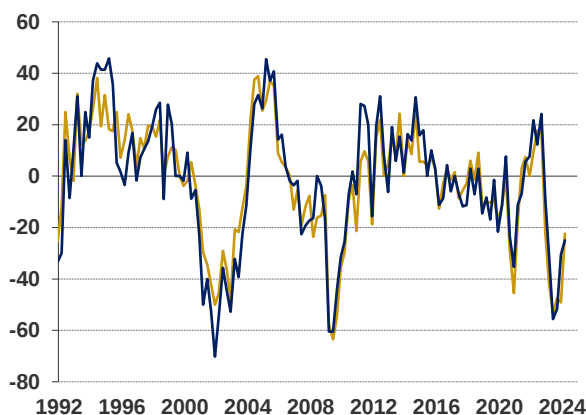


SLOOS- tighter lending standards



— % tightening standards for C&I loans for medium/large firms
— % tightening standards for C&I loans for small firms

SLOOS- stronger demand conditions



— % reporting stronger demand for C&I loans for medium/large firms
— % reporting stronger demand for C&I loans for small firms

What is this data? Quarterly Fed's Senior Loan Officer Survey provides insights into changes in bank lending standards for commercial and industrial loans. The survey gathers information from senior loan officers at major banks and financial institutions and asks questions about changes in lending standards, demand for loan, and other factors influencing credit availability.

Current status: Reiterating the message from the previous report, the most recent Senior Loan Officer Survey for Q4 showed that fewer banks are tightening credit standards on commercial and industrial loans for all businesses. Though standards remain tight, the rate of change is what matters most, with the net percentage of banks reporting tighter C&I loan standards down to 14.5% from 34% in Q3. Not only is the availability of credit improving, but the demand for credit is also picking up. The share of banks reporting weaker demand for commercial and industrial loans among large and medium-sized firms fell to 25% from 31% in Q3. For smaller firms, the decline was even more pronounced. Here, the share of banks reporting weaker demand for C&I loans fell to 22% from 49%. We will get the Q1 numbers by the next report, but it's likely to show continued easing in credit conditions as the US economic outlook improves.

Appendix A – Monetary Indicators

The monetary backdrop is somewhat profound in terms of its potential influence on inflation and is the subject of considerable debate. Below is a simple monetary framework that helps to explain the role of Money in the economy and how it can affect inflation.

A Monetary Framework

The amount of money circulating in the economy will have implications for inflation in the medium-long term. This is best expressed via the **Quantity Theory Identity**

$$M.V \equiv P.Y$$

Where M is the amount of money in the economy, V is the velocity of money (how many times the amount of money is used), P is prices and Y is real output (GDP). Together, P.Y is money or nominal GDP.

As a basic identity this is not controversial. If M (\$500) is used 5 times (V) then \$2,500 will have been spent and will be equal to the value (P.Y) of all goods sold in the economy - e.g. 2,500 items of real output (Y) at \$1 each (P) or 1,000 of (Y) at \$2.50 each (P) etc.

Where the identity becomes more interesting is in the assumptions made about its components. Traditional Monetarists contend that V is fairly stable and predictable, and Y is constrained by the capacity of the economy. So, Monetarists argue that if M is rising faster than Y and V is stable, it follows that P will also rise. In other words, money growth creates inflation.

Others contend that V is not stable and that Y can occasionally deviate substantially away from full capacity, so the relationship between M and P is less obvious. For example, since the Global Financial Crisis the Federal Reserve has made great efforts to increase the supply of money (M), but this has not led to proportionate increases in P.Y. This is due to two things. First, a reduction in velocity - any extra money balances are merely accumulating in the system (higher demand for money) rather than being spent and second, a lower money-multiplier. The money-multiplier represents the rate at which central bank created money (the monetary base) generates additional increases in the total money stock, primarily via the lending of commercial banks – more on money creation below.

In sum, this basic Quantity Theory Identity is a useful framework for analysing the potential interaction between the monetary and real sectors of the economy and the data followed in this document will seek to shed light on what is happening to the various components of this identity.

What is Money?

Another issue is how 'money' or M is defined. Definitions of money include M0, MB (the Monetary Base), M1, M2, M3 and MZM (maturity zero money) and the basic difference between them is primarily related to liquidity. The further we move along the spectrum towards M3 the less liquid 'money' becomes. For example, a large time deposit cannot be spent immediately whereas a checking deposit can. Note that M3 and MZM are no longer used in the US by the Fed.

Definitions

M0 = notes and coins *in circulation* with the non-bank public.

Monetary base = M0 + notes and coins held by banks and the central bank + bank reserves held by the banking system at the central bank (bank reserves) **Note:** the last two items are *not in circulation*.

M1 = M0 + demand deposits and other checkable deposits (including savings deposits after Fed methodological revision – they were previously in M2). **Note:** bank reserves are not included in M1 – important when looking at how Fed QE affects M1 and M2 etc.

M2 = M1 + time deposits less than \$100k + retail money funds. **Note:** institutional money market funds are not included in M2.

M3 = M2 + large time deposits + institutional money market funds + short-term repos and other large liquid assets.

MZM (Money Zero Maturity) = M2 + all money market funds less time deposits **Note:** MZM aimed to identify all forms of 'liquid' money and was a hybrid of M2 and M3.

Who creates Money?

A useful way to think about money – again relevant when considering Fed QE – is who creates it? The short answer is that both the central bank and the commercial banking system create money.

The Monetary Base is created and influenced by the Central Bank and is so-called because it is the base from which all other forms of money (non-M0, M1, M2 etc.) are created by the commercial banking system via bank lending.

For example, using QE as an example, the Fed buys T-Bonds from a bank and credits that bank's account at the Fed with the proceeds. These funds are now reserves. At this point, no money has entered circulation, so no other measure of money apart from the Monetary Base has been affected.

As the Monetary Base has increased, commercial banks are more *able* to create other money by issuing new loans and if they were to do this it would lead to a corresponding rise in deposits. Bank lending is the main driver of 'money creation'. This is because a loan, when advanced to the borrower, will be deposited in the borrowers account i.e. an immediate rise in deposits (higher M1). Or, if the 'loan' is via a credit card, the borrowers account will not be affected, but the recipient of the credit card spending will deposit the revenue in their own bank account, so deposits somewhere in the system will have increased because of the 'loan' (higher M1).

In sum, boosting the Monetary Base (via e.g. Fed QE) increases the ability of banks to create other money such as M1. But the rate at which this happens (the money-multiplier) will come down to a commercial judgement by the banks as to whether or not they would like to advance extra loans.

Disclaimer

This report is prepared by Altana Wealth Ltd ("Altana") authorised and regulated by the Financial Conduct Authority in the United Kingdom (FRN: 532912). The investment products and services of Altana are only available to persons who are professional clients and eligible counterparties as defined in FCA's rules. They are not available to retail clients. The distribution of this report may be restricted in certain jurisdictions and it is the responsibility of any person or persons in possession of this document to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction.

This report is based upon information that Altana believes to be reliable. Altana does not represent that this report is accurate or complete and it should not be relied upon as such. Nothing in this report shall constitute tax, financial, or legal advice given by Altana to any party. Performance information for the month of the report is preliminary estimated data net of all fees and expenses and is subject to change. The estimate and other performance data disclosed is not audited. Stock or other indexes are included for comparison purposes only. Where information provided in this report contains "forward-looking" information including estimates, projections and subjective judgment and analysis, no representation is made as to the accuracy of such estimates or projections or that such projections will be realised. Certain assumptions used in formulating such "forward looking" information may differ materially from actual events or conditions. The funds referred to in this report are registered as Regulated Mutual Funds pursuant to Cayman law but otherwise have not been registered under the securities laws, or authorized or approved by any regulatory authority, of any other jurisdiction. This report shall not constitute an offer to sell or a solicitation of an offer to buy shares or interests in any of the funds described in this report. No such offer or solicitation will be made prior to the delivery of an offering memorandum for the relevant fund. Before making an investment in any of the funds referred to in this report, potential investors should read carefully the private offering memorandum for the relevant fund, including the description of the risks, fees, expenses, liquidity restrictions, and other terms of investing in the funds, and consult with their own tax, financial, legal and other professional advisors. Hedge funds are speculative and involve risk of loss. This report is confidential and may not be reproduced in whole or in part, or delivered to any other person, without the prior written consent of Altana. Past performance is not a guarantee of future results. Issued by Altana Wealth March 2024.