

Don't Dismiss Global Dis-inflation

"It is a capital mistake to theorize before one has data." – Sherlock Holmes

In a Nutshell:

- **Conflating Trump 2.0 tariffs with ubiquitous global price shocks that overturn the global dis-inflation trend is misguided.**
- **Instead, sustained ex-US global dis-inflation looks likely given a conspiracy of *subdued upstream cost-push dynamics* and *China's export of industrial dis-inflation*.**
- For one, *global upstream cost-push drivers* are by and large *subdued*, **underpinned by** the odds stacked in favour of **global energy dis-inflation**.
- Crucially, *China's deeply entrenched manufacturing deflation* ought to export global dis-inflation by default (barring tariffs in sympathy with the US).
- Macro Implications: If realized, **further ex-US global dis-inflation** is likely to;
 1. **underpin deeper global monetary easing** as well as;
 2. **induce US-ROW[^] inflation wedge.**
- Rates Implications: This in turn squares with;
 - i. **softer global rates**, with *deeper global rate cuts vis-à-vis the Fed*.
 - ii. But **offsetting US-ROW inflation wedge** will **mitigate/diminish corresponding pressures in real rate spreads** (vs. US).



- **Tariffs** are understandably **conflated with price shocks** and *consequent inflation*.
 - And given the current **preoccupation with global tariffs**, the **instinct** may be **to fret about global inflation**.
 - *But* this simplistic **worry about ubiquitous inflation driven by Trump 2.0 tariffs** is a **grossly misplaced** concern.
 - In fact, the evidence at hand suggests that the conditions for **global dis-inflation by and large remain intact**.
 - For one, our proxy of **upstream drivers of global cost-push*** (based on *energy, key commodities, and freight*) are **consistent with subdued inflation**.
 - *Admittedly*, inflation hawks could argue **upstream cost-push**, while significantly diminished from 2022 peaks, is still **relatively more elevated** vis-à-vis pre-pandemic norms.
 - And that the full **tariff ripple-effect through global supply-chains** is **yet to be determined**.
 - Fair points. But *reasonable doubt about unfettered dis-inflation* is *not incrimination of* an *impending inflationary spiral*.
 - And the bigger picture is that far more **subdued upstream cost-push underpinned by dis-inflationary energy** squares with **broader global dis-inflation remaining intact**.
 - What's more, **China's entrenched industrial deflation** is **well-placed to export dis-inflation** *outside of the US*.
 - Specifically, China's **manufacturing component of PPI remains deeply deflationary**,
 - Given **China's sheer global manufacturing dominance heft/overcapacity** *this is highly correlated with global inflation*.
 - And *under the current conditions* **consistent with sustained global dis-inflation**.
 - *Admittedly*, **US tariff barriers** may mean higher US-specific inflation *despite* *China's dis-inflationary global dynamic default*.
 - Whereas **US tariff barriers** could actually *accentuate*** *ex-US global dis-inflation* from increased relative Chinese good supply elsewhere.
1. Macro Implications: If realized, **further ex-US global dis-inflation** is likely to; **underpin deeper global monetary easing** as well as;
 2. **induce US-ROW^ inflation wedge**.
- Rates Implications: This in turn squares with;
 - i. **softer global rates**, with *deeper global rate cuts vis-à-vis the Fed*.
 - ii. But **offsetting US-ROW inflation wedge** will **mitigate/diminish corresponding pressures in real rate spreads** (vs. US).

*Mizuho's global cost-push proxy in this iteration is comprised of; Brent Crude, Baltic Dry Index, In-bound Airfreight from Asia; CRB-Food, CRB- Metals and CRB – Input Prices.

** This assume (And requires) that other trade partners do not raise tariffs on Chinese goods in tandem/sympathy with the US.

^ Rest of the world

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