



# Inflation strikes back: the surge & policy reaction

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Economics  
Global

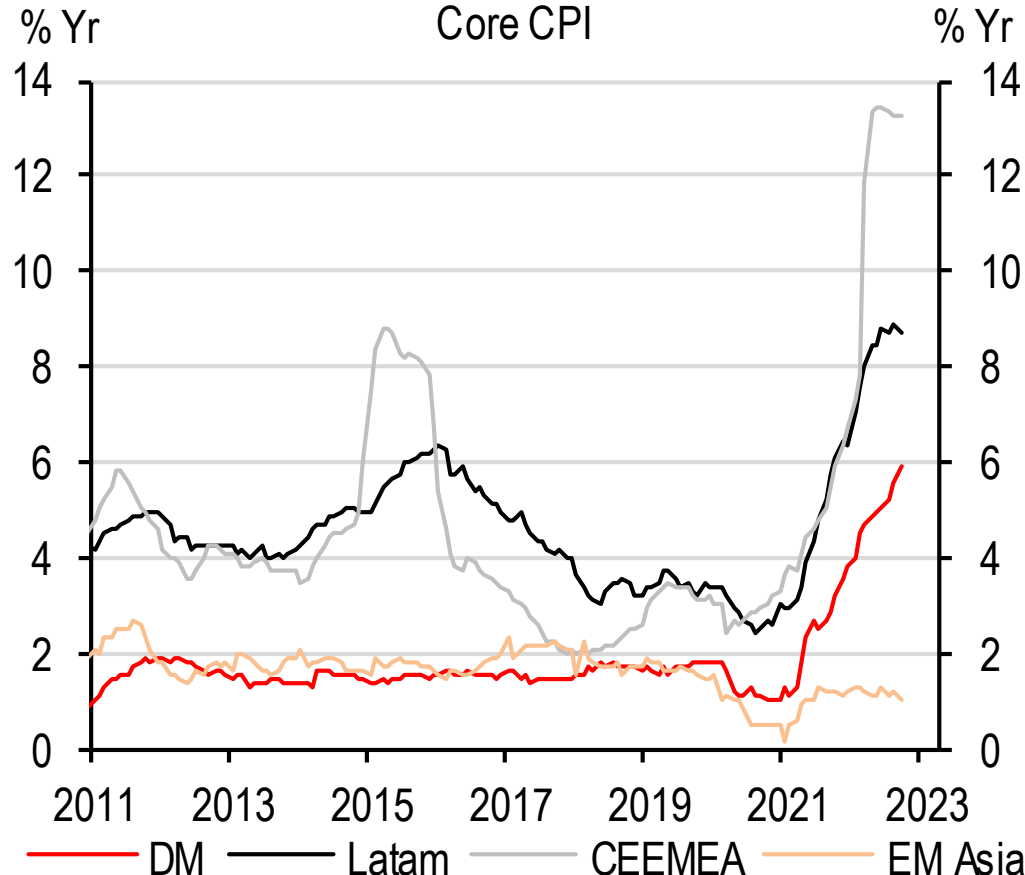
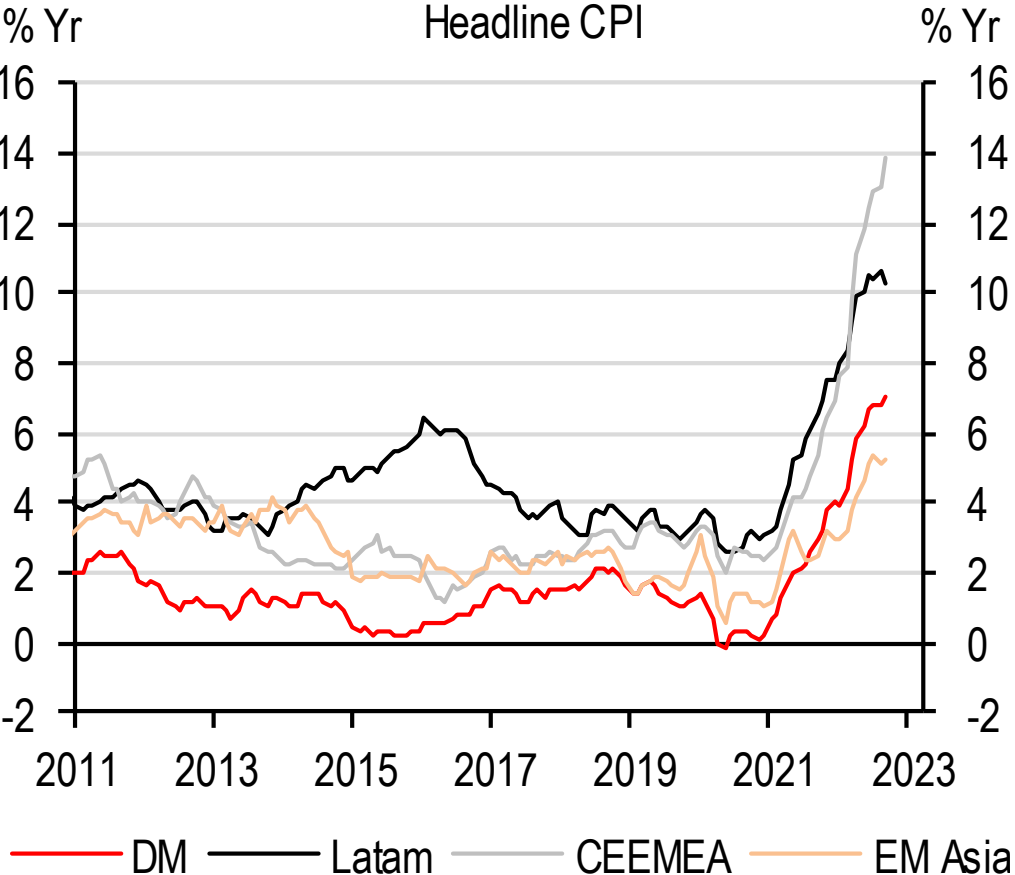
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## A price worth paying?

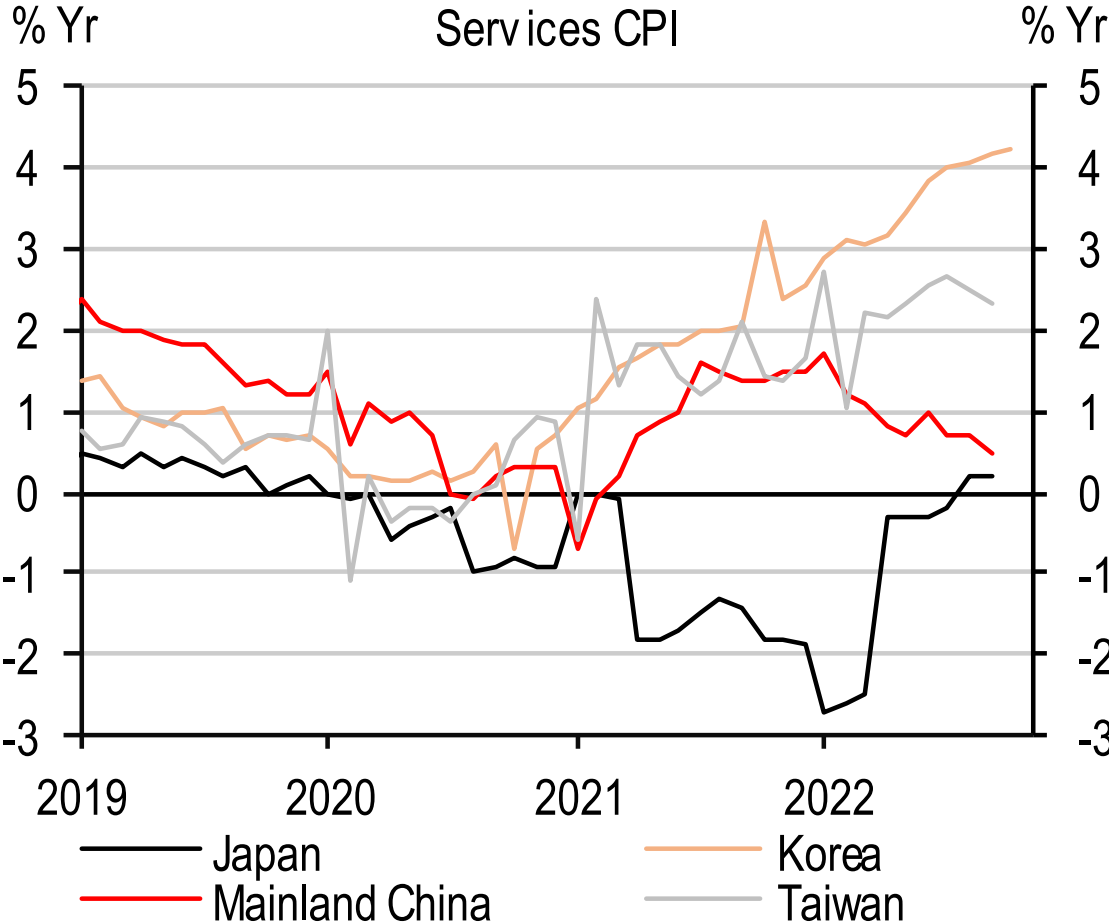
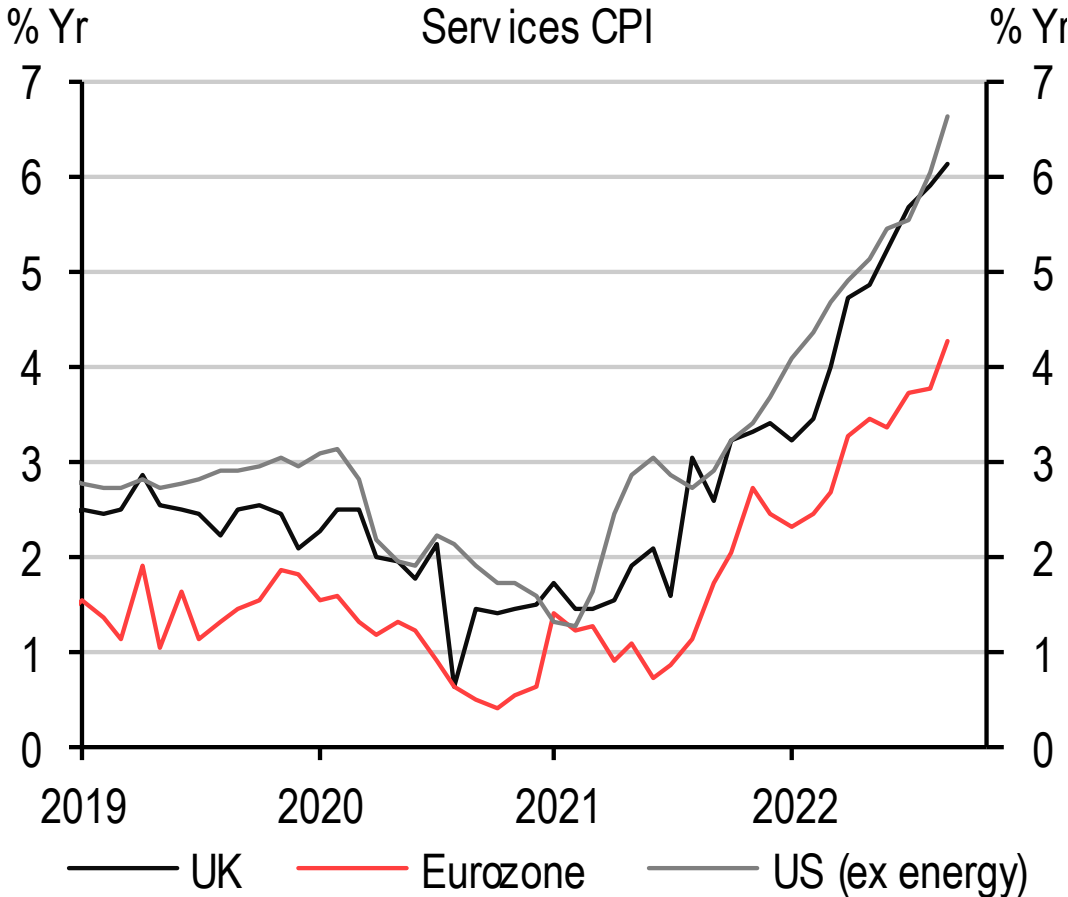
- The Fed and ECB believe that the need to prevent inflation from becoming persistent...
- ...is more important than stabilising near-term output...
- ...so rising unemployment may be the price that has to be paid...
- ...but as social, political and financial pressures mount...
- ...will they stay the course?

# Global inflation has continued to head higher around the world even if core pressures are more subdued Asia



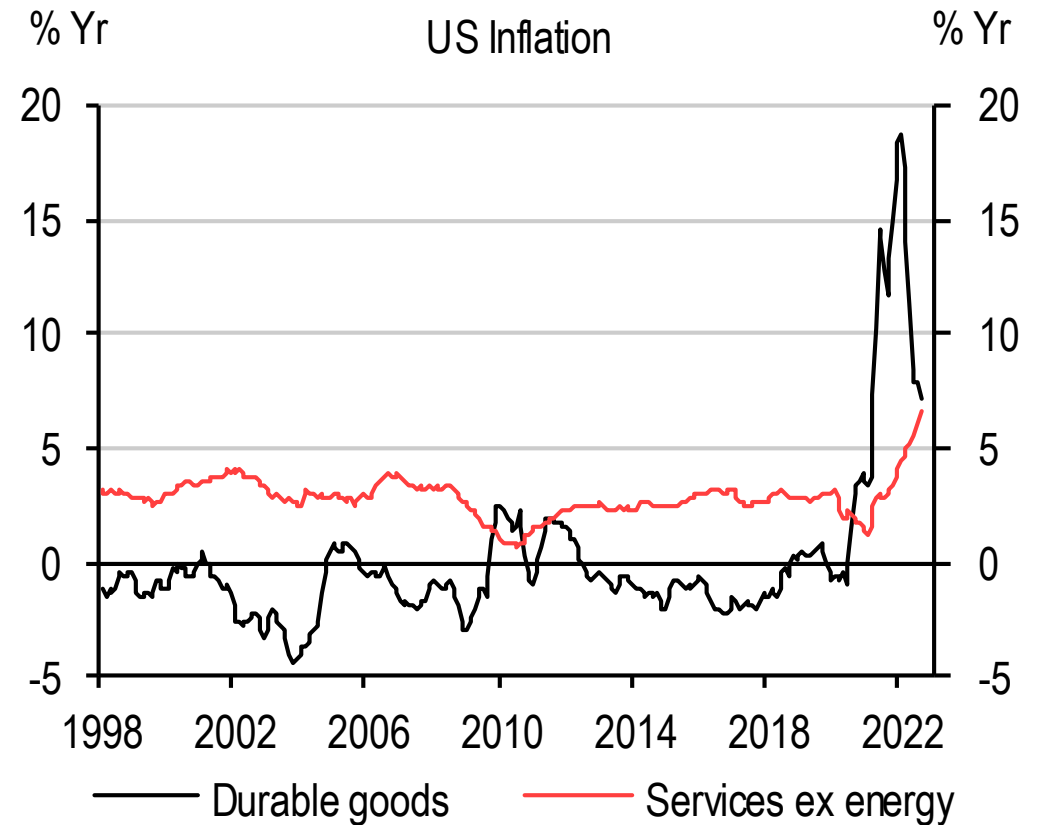
Source: Refinitiv Datastream, HSBC calculations

# Service sector inflation is accelerating around the world except in mainland China



Source: Refinitiv Datastream

# Less globalisation and more supply chain resilience means less goods-price deflation

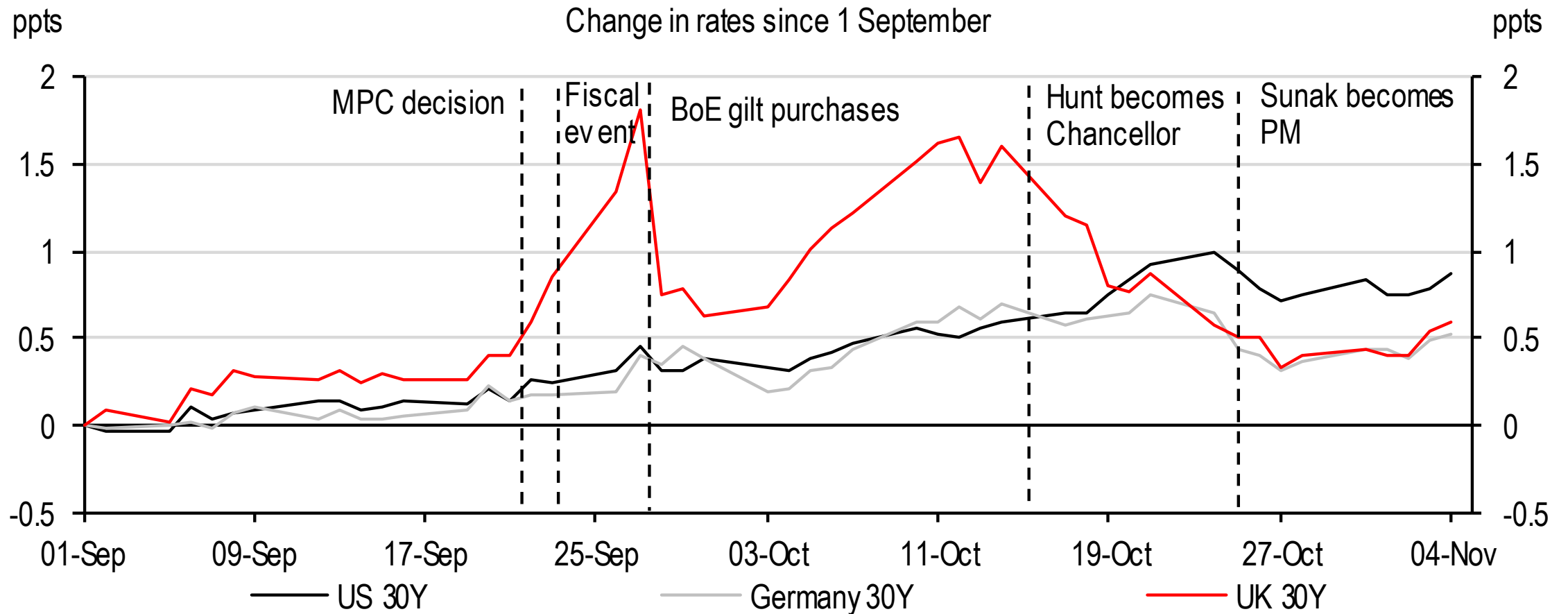


**Have overly loose monetary conditions opened the door to fiscal dominance and even financial dominance?**



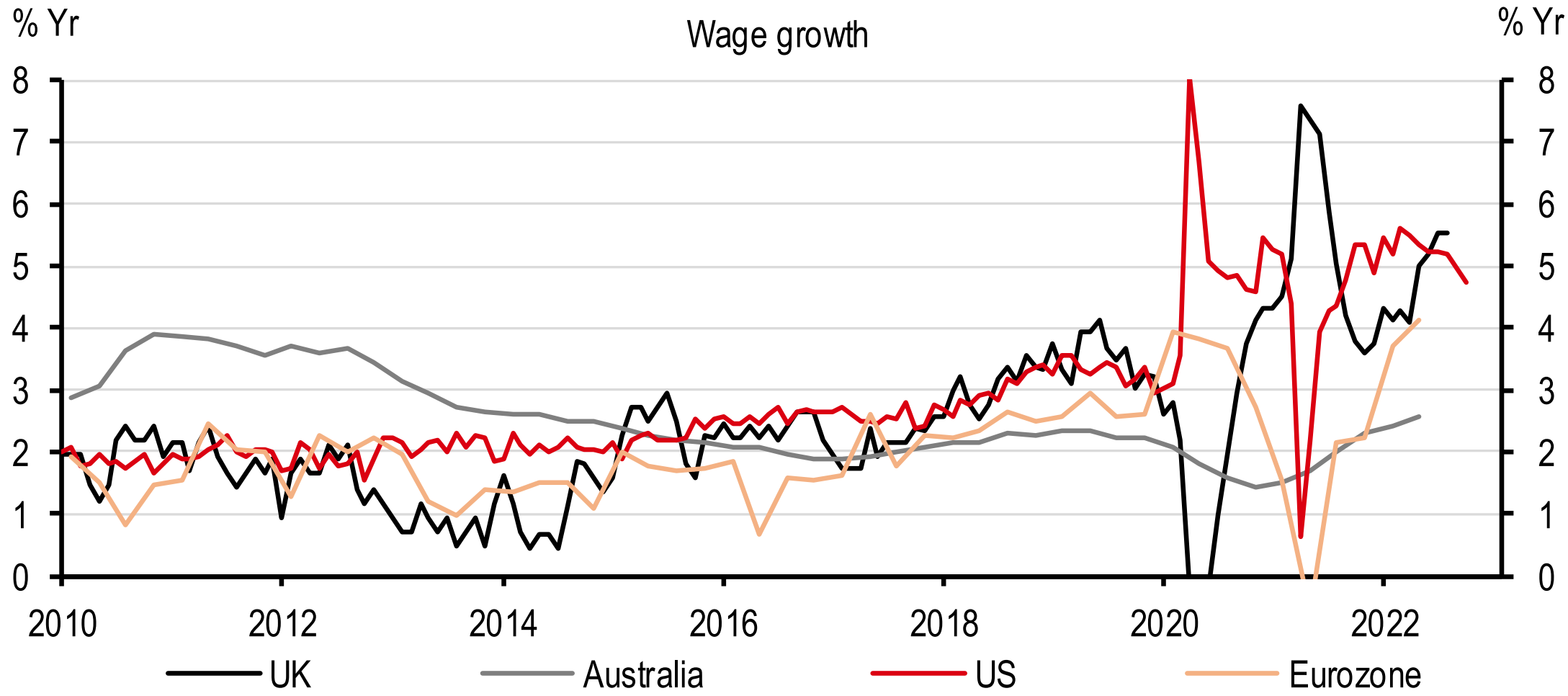
**Trussonomics**

# It's been a rollercoaster



Source: Bloomberg

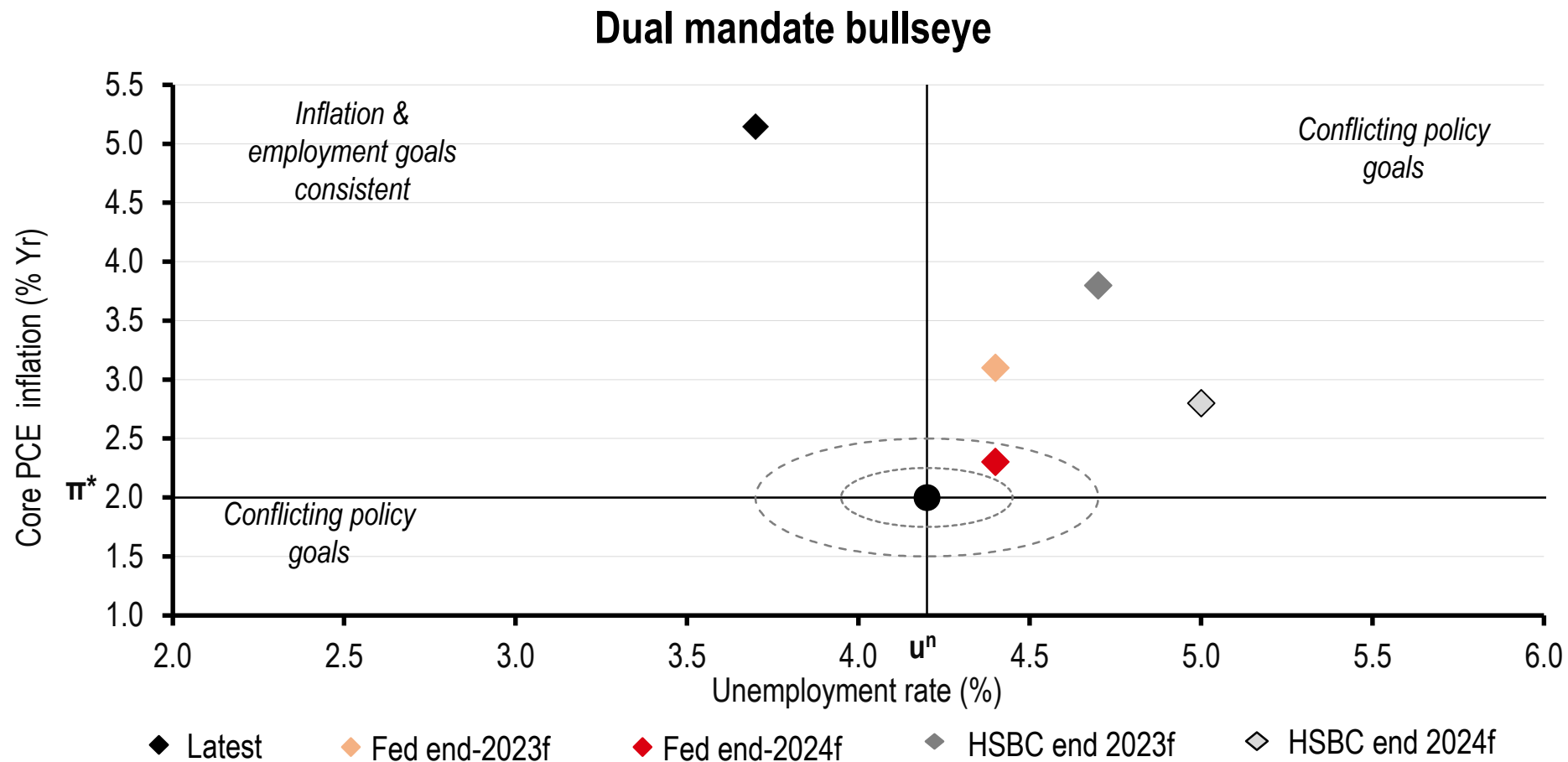
# Tight labour markets mean wage growth is still the major near-term fear even as economies slow



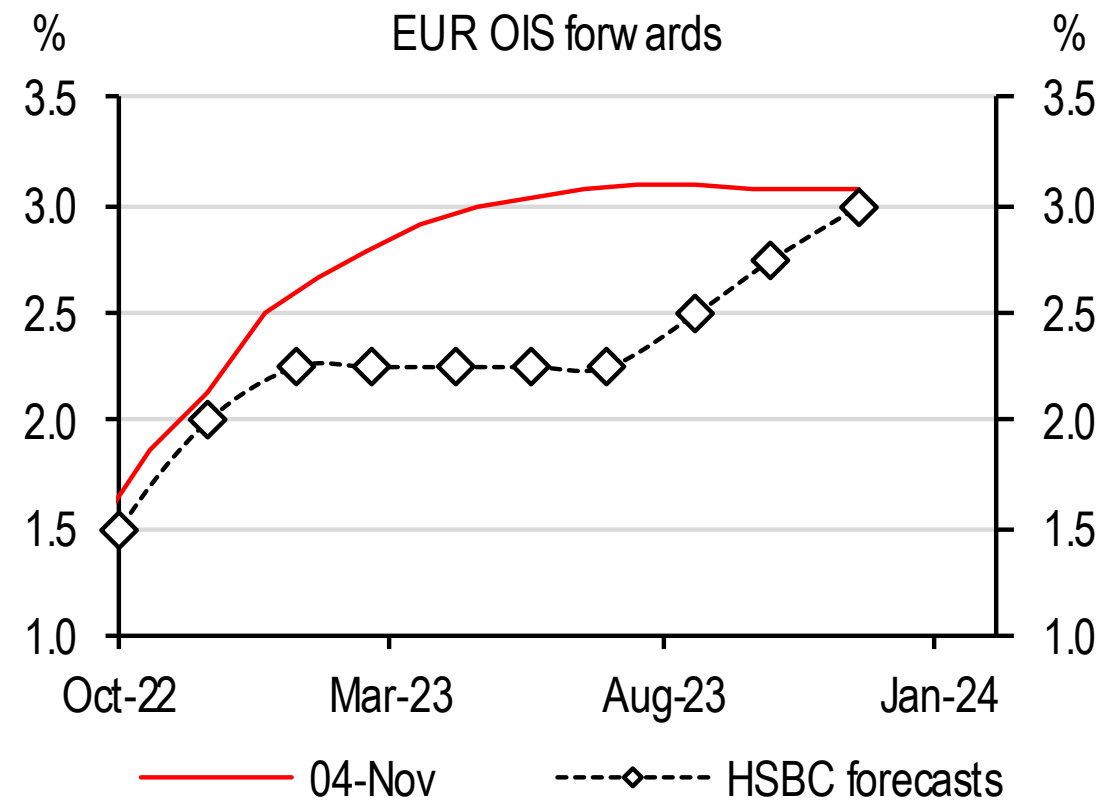
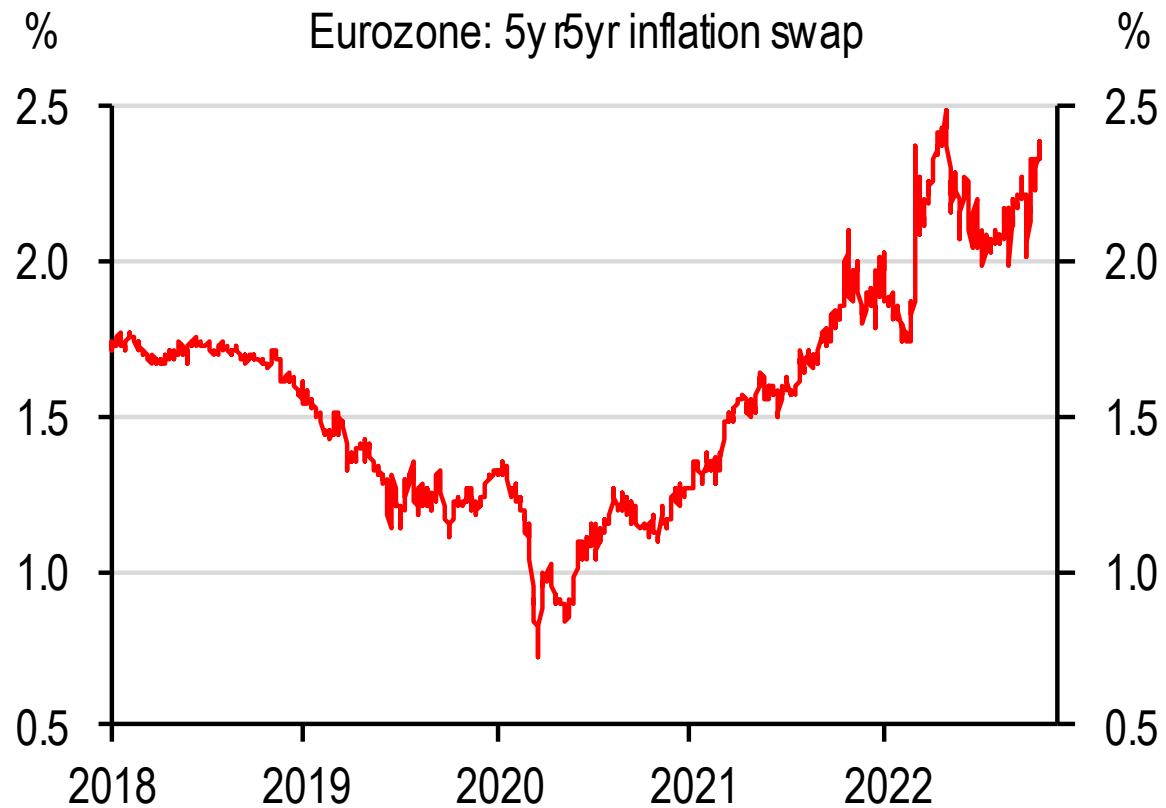
Source: Refinitiv Datastream, HSBC



**In 2023-2024 it may be hard for the Fed to set policy that is appropriate to meet both goals which likely means no quick policy reversal this time**



# High inflation and higher inflation expectations means more ECB tightening ahead



Source: ECB CES, Bloomberg.

## Tough love: fighting to restore inflation credibility even at the expense of growth pain

- US Fed looks set to raise the policy rate to *at least* 4.75%-5.00% by very early 2023 and to shrink the balance sheet by nearly USD1 trillion in the year to mid-2023
- We project the ECB will raise the deposit rate to 3% by end-2023 but could pause mid-recession
- BoE to quickly lift Bank rate to 3.75% by February 2023
- Broad-based monetary and fiscal easing in mainland China is aimed at offsetting domestic and global growth risks but pace of recovery hinges on COVID restrictions
- Even in 2024 our forecasts paint a picture of a deteriorating growth-inflation trade-off with scope for policy rate cuts in only a few places

# Disclosure appendix

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