18 June 2014

June inflation round-up

Oil primed to push global inflation higher

Many commodity prices continue to head downwards, with some, including iron, rubber and corn, flirting with multi-year lows in recent weeks. Not so oil. The cost of Brent crude has leapt above USD112/barrel (see 'Global inflation indicators' below), as increasing bloodshed in **Iraq**,**Ukraine** and **Nigeria** threatens energy production and unnerves investors. The oil price is now more than 11% higher than this time last year. Being such an important factor in the calculation of inflation, it is likely to push indices higher unless it declines soon. At least it should temperfears arising from what has been a long, global disinflationary trend.

The jump in oil prices might even help the **Eurozone** avoid deflation, though this is not guaranteed. The threat of falling prices finally forced the European Central Bank to act last week, when it introduced negative interest rates on banks' deposits and committed itself to several years of very-cheap lending. The spur these measures will give to domestic demand should then translate into rising prices, or so the idea goes.

The ECB will know from **Japan**'s experience over the last 25 years how difficult it can be to engineer inflation. However, under Prime Minister Shinzo Abe it seems to be succeeding at last. When 'Abenomics' was launched at the end of 2012, import prices (especially for energy) rose sharply as the yen depreciated. The devalued currency then boosted exports and economic growth, stimulating domestic demand and raising prices further. A big VAT hike in April pushed indices up yet more. Now, companies in Japan finally seem to believe in the new inflationary reality too, with many giving staff pay rises for the first time in years and the ubiquitous Uniqlo imposing a 5% price increase on every product it sells last week. So, is it sayonara deflation? Probably, but only if the government keeps up its reform programme. There is plenty yet to do before the turnaround in Japan's prices can be considered permanent.

India, meanwhile, is trying the opposite trick, of containing inflation, which has been too high for years and has retarded economic growth. The causes are many, and some, such as the weather, are beyond authorities' control. Others, however, including corruption and supply constraints, could be addressed and new Prime Minister, Narendra Modi, sounds determined to do that. This month he gave the central bank instruction to make tackling inflation its number-one priority. Unfortunately, to achieve this, the bank will have to tighten monetary policy, which tends to dampen demand and might clash with Modi's other main aim, which is to stimulate economic growth. Nothing is ever simple in the world of inflation!

Indeed, far from it if you are part of **Ghana**'s government currently. Having overspent substantially, sparking a surge in inflation and putting the public finances in a precarious position, the central bank has admitted printing money (that old trick, eh?) and monetising the government's debts – Fitch is not the only credit-rating agency warning that such tactics are likely to push prices up further.

Venezuela is, of course, no stranger to printing money, nor, indeed to inflation, which soared above the 60% mark there in April. As I've reported several times, the biggest driver of the inflation problem is the much-tinkered-with multiple-exchange-rate regime, which has distorted the workings of the economy for more than a decade. But finally, it seems, the government is going to act. Economy Vice President Rafael Ramirez on Sunday acknowledged the inappropriateness of the currency controls and vowed to forge convergence of the four main exchange rates in operation (including the black-market one, though that is largely out of his hands). There will be more on this in the exchange rate round-up at the end of the month, by which time hopefully the government will have provided some details on how it hopes to achieve this aim.

On watch!

In addition to the table at the foot of the post, which details countries with consumer price inflation above 10%, this watch-list highlights others also showing marked upward trends. (NB. This does not include countries where inflation is elevated but stable or falling.)

Country	*Latest official CPI inflation*
Ethiopia	9.1% April 2014 *up from* 7.6% January
Gabon	8.2% April 2014 *up from* 3.3% December
Honduras	6.0% April 2014 *up from* 4.9% December
Kazakhstan	6.7% April 2014 *up from* 4.6% January
Kyrgyzstan	7.5% April 2014 *up from* 4.2% February
Liberia	9.8% April 2014 *up from* 7.9% February
Myanmar	6.3% March 2014 *up from* 4.4% December
Pakistan	9.2% April 2014 *up from* 7.9% February
Paraguay	6.1% March 2014 *up from* 3.9% January
Russia	7.3% April 2014 *up from* 6.1% January
Turkey	9.4% April 2014 *up from* 7.4% December
Ukraine	6.9% April 2014 *up from* 1.2% February
Uruguay	9.7% March 2014 *up from* 8.5% December

Global inflation indicators
Commodity price index (IMF):1 June 2014: 184.4 (2005=100); **+2.78%** *y/y.*
Oil price (Brent Crude): 16 June 2014: USD 112.63/brl; **+11.42%** y/y.
Food price index (UN-FAO): 1 June 2014: 207.8 (2002-04=100); **-3.17%**y/y.
*Average global CPI inflation**:* **4.16%** on 16 June 2014 (1yr ago: 4.57%). (NB. Use with caution, as no account taken of relative weightings etc.)

** (This figure is based on 185 ECA Cost of Living countries.)

High-inflation countries (CPI 10%+)

Country	CPI %	Last reported	Main local drivers	Current trend	IMF 2014 forecast %
Argentina	20.5	Apr-14	Peso weak; high govt spending, wages; interest rates/inflation artificially low - real inflation c37%.	Rising	n/a
Belarus	16.2	Mar-14	Currency devaluations; govt largesse; high wages; supply constraints.	Stable	15.8
Ghana	14.7	Apr-14	Currency losses; subsidy cuts; import, investment and money-supply growth; oil/gas development.	Rising	11.1
Guinea	10.0	Mar-14	Previous currency depreciation; mining sector investment; increased govt spending; corruption.	Falling	8.5
Iran	17.4	Apr-14	Currency devaluations; govt largesse; high wages; subsidy cuts; supply constraints.	Falling	22.0
Malawi	33.7	Apr-14	Currency devaluation; supply deficiencies; food/fuel shortages; corruption.	Stable	6.9
Mongolia	11.1	Apr-14	Strong demand but inadequate supply; high govt spending; fast lending and money supply growth.	Stable	11.0
Sudan	35.7	Mar-14	Sales tax increases; subsidy cuts; excessive currency printing; supply constraints; corruption.	Falling	14.3
Syria	88.0	Dec-13	Civil war; production & supply severely restricted; currency slump; inflation now may be higher.	Falling	n/a
Venezuela	61.5	Apr-14	Money printing; soaring wages; currency devaluations & controls; forex & supply shortages.	Rising	38.0

ECAMoneyMoves is written by Andy Payne, Economic Analyst at ECA International (www.eca-international.com) specialising in currency and inflation issues relating to international assignments.