

3<sup>rd</sup> June 2022

### **Global Market – Food Inflation & Energy inflation (Oil & Gas)**

Last week we have discussed recession fear even before central banks complete its course of action. Central banks can control inflation by increasing interest rate, reducing liquidity and use financial tools to dampen the demand which in turn would lead to lower inflation.

This week we will discuss inflation concern comes mainly from food inflation and another important contributor to inflation is high energy prices (Oil & Gas). After Russia-Ukraine crisis since 24-Feb-22 and sanctions on Russia by US & other European countries inflation have sky rocketed.

To add to inflation issue was China's zero tolerance COVID-19 policy, China have started gradually opening up from 1<sup>st</sup> week of June but return to normalcy will take some time. Supply chain issue and inflation triggered by it will show its impact on inflation numbers in coming weeks / months globally.

### **Food inflation**



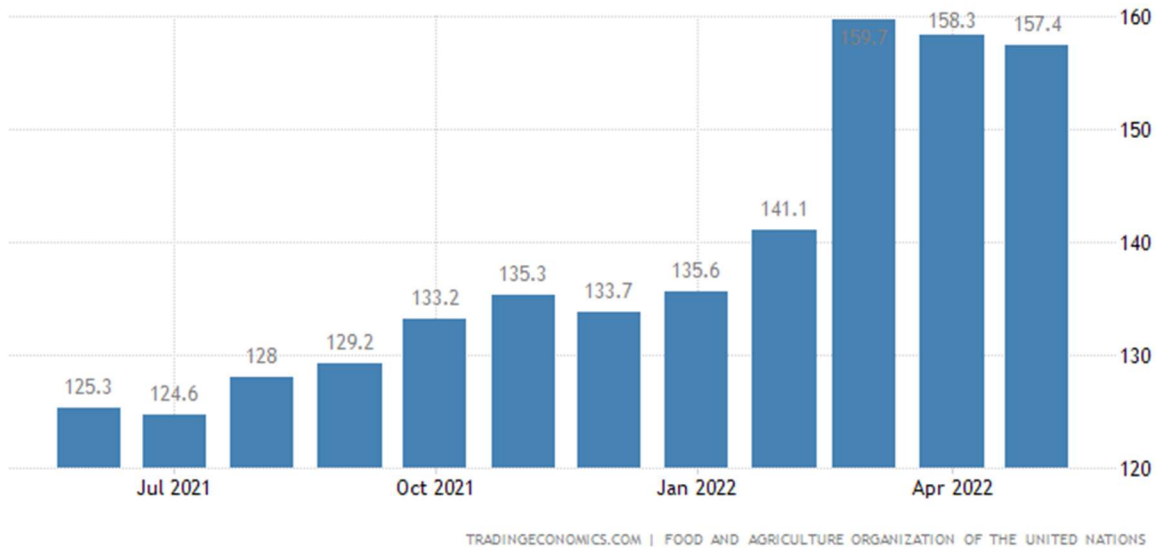
The FAO Food Price Index dropped 0.6% mom to 157.4 in May of 2022, the second month of declines, but still remained close to a record high of 159.7 points hit in March.

Main decreases were seen in the vegetable oil index (-3.5%), amid lower prices across palm, sunflower, soy, and rapeseed oils, due to the removal of Indonesia's export ban on palm oil.

The dairy price index also went down 3.5%, the first decline in eight months, as prices of milk of fell on lower buying interests on market uncertainties stemming from the continued lockdown in China.

The sugar price index dropped 1.1% due to bumper crop in India and a weaker real. On the other hand, meat prices continued to rise (+0.5%) and the cereal price index jumped 2.2%, as wheat prices surged after an export ban announced by India amidst concerns over crop conditions in several leading exporting countries, as well as reduced production prospects in Ukraine because of the war.

source: Food and Agriculture Organization of the United Nations



### Energy inflation – Crude oil & Natural Gas

#### Crude Oil – WTI Oil @ \$117 & Brent Crude Oil @ \$117.90

OPEC+ meeting delivered only a modest increase in output despite speculations of a bigger supply boost.



The group of major producers decided to increase output by 648,000 barrels per day in July and August instead of the previously agreed 432,000 bpd, in a move that was seen as hardly enough to compensate for lost supply from Russia.

Russian output dropped by 1 million bpd since its invasion of Ukraine and is likely to fall even further as the EU's ban on Russian oil kicks in.

There had been speculation that the Saudis were preparing to pump significantly more as part of a reset of relations with the US, and there were even suggestions that Russia might be exempted from OPEC+'s monthly supply agreements, but both did not happen.



### **Natural Gas @ \$8.64**

US natural gas futures eased to around \$8.2 per million British thermal units in early June, after fresh data showed gas held in storage facilities in the United States increased more than expected in the last week of May.

Still, gas prices remain elevated and close to a 14-year high of \$9.45, amid strong demand, both domestic and abroad.

Russia's war on Ukraine has caused a global energy crunch, with demand for US LNG set to remain elevated partly due to Europe's calls for US exports to help cut reliance on Russia.

Meanwhile, average gas output in the US Lower 48 states fell to 94.5 billion cubic feet per day so far in June from 95.1 bcfd in May.

That compares with a monthly record of 96.1 bcfd in December 2021, data provider Refinitiv reported. The average amount of gas flowing to US LNG export plants rose to 12.7 bcfd so far in June from 12.5 bcfd in May, compared to a monthly record of 12.9 bcfd in March.

### **Equichain Wealth Advisors – Key points & Opinion**

Globally central banks have shifted its focus from growth to inflation, central banks have limited tools and that too are financials tools such as interest rate, withdrawal of QE.

Currently inflation is mainly caused due to supply issue due to Russia-Ukraine crisis and lockdown in China.

**We believe, that central banks steps will do more harm than better for overall economic growth globally, but there is counter view to this is – Inflation needs to be brought under control or else it will more harmful in long run.**

US Fed first started increase interest rate in March 2022 but GDP data from Jan-Feb-Mar 2022 came in negative, so we assume US GDP for Apr-May-Jun that is Q2 will come in negative and officially US will be in recession.

- 1) RBI MPC meeting outcome on 8<sup>th</sup> June 2022
- 2) ECB meeting outcome on 9<sup>th</sup> June 2022
- 3) US Fed meeting outcome on 15<sup>th</sup> June 2022

**Central banks meeting this month will try to do a balancing act and try to calm the market but Central banks could do very little to solve supply side problem and could end up doing destruction in an attempt to bring inflation down.**