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Any collision between Fed tightening and emerging stagflation?

When you only have an increase in energy prices, it's usually considered a shift in relative prices, and transitory. But if inflation is being triggered by bottlenecks, as is this case with this war, it's a different story, and it looks as if in Europe, it's coming in higher than expected, above 6%. That would force the ECB into action earlier than it would have otherwise. But it also looks like the US equities markets could drop off if people don't want to risk their profits and that's the classical scenario in which the US Fed would take its foot off the brakes a bit. I think the current situation has moved more towards a quarter percent rate rise for March rather than 0.5%, because the Fed has this inherent bias.

If Central banks do step back, is there any way to avoid stagflation?

Inflation would have gone up without the Ukraine crisis. But what has happened is that the financial sanctions on Russia have been much stronger than anticipated. They have effectively meant the Central Bank has lost its reserves and cannot act on anything. What that means for the economy in the short-term, is disruptions in oil and commodities exports and consequent price hikes. In the long term, very importantly, it means that Russia will have to export to get some cash and they will rely on China for hard currency swaps. The Chinese in exchange will want more Russian commodities, more energy, and more of everything, to the extent their infrastructure allows.

How do you see the Ukraine crisis playing out this week?

I'll be looking for clues on the willingness of Russia to find a way out, such as with humanitarian corridors, and also any willingness from the Russia people, its business sector and within its government, to put an end to this. A solution has to come from within Russia. Many of those now exposed to western sanctions are those who have always argued that they don't want to be pushed into the same boat as China, but rather that of Brussels, London and Washington. And they're all afraid of course because they don't want to be cut off from their refuge in the West. At some point, when the pressure gets high enough, maybe things will change internally, but this is impossible to predict from the outside. ■

**Paraphrased comments*

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