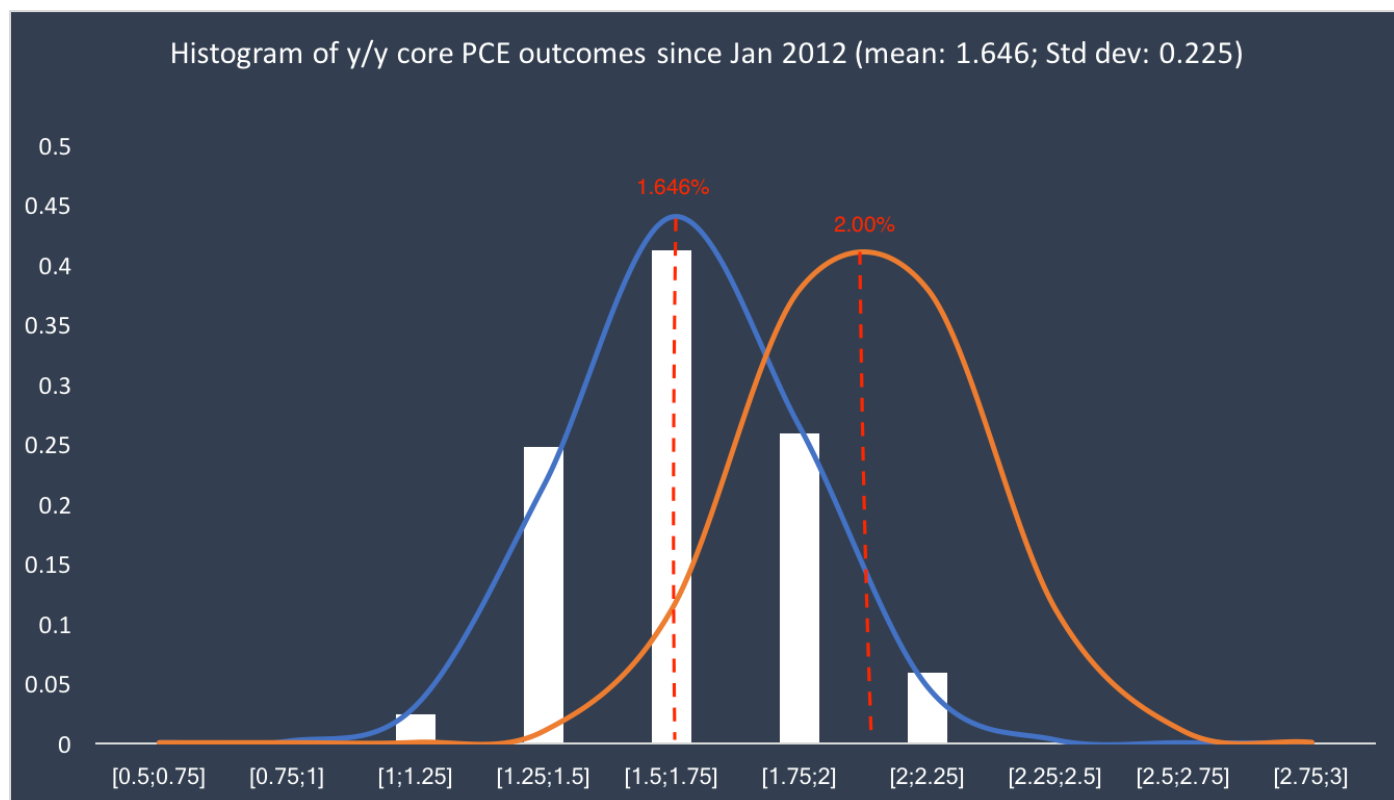


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Chart 1:



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Chart 2:

Despite the strong recovery in realised inflation ...
... Inflation expectations remain sticky to the downside (and pegged at multiyear lows):

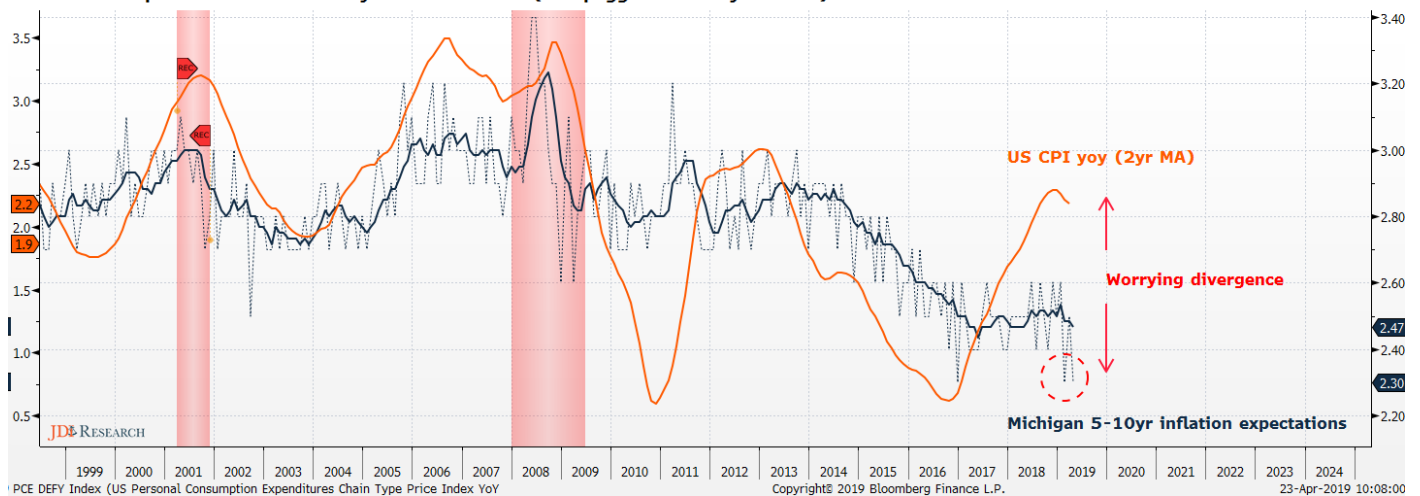
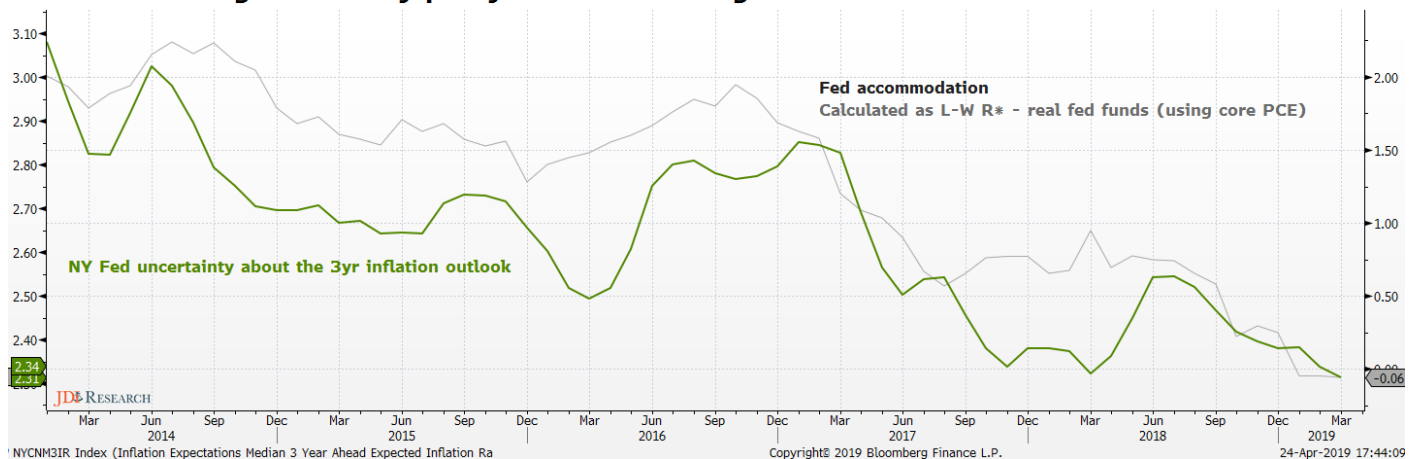


Chart 3:

It is the Fed's tight monetary policy that is cementing the forever-low inflation outlook:



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Chart 4:

Inflation breakevens are 45bps below long term average ...
... and do not suggest that core PCE has returned sustainably to the Fed's target:

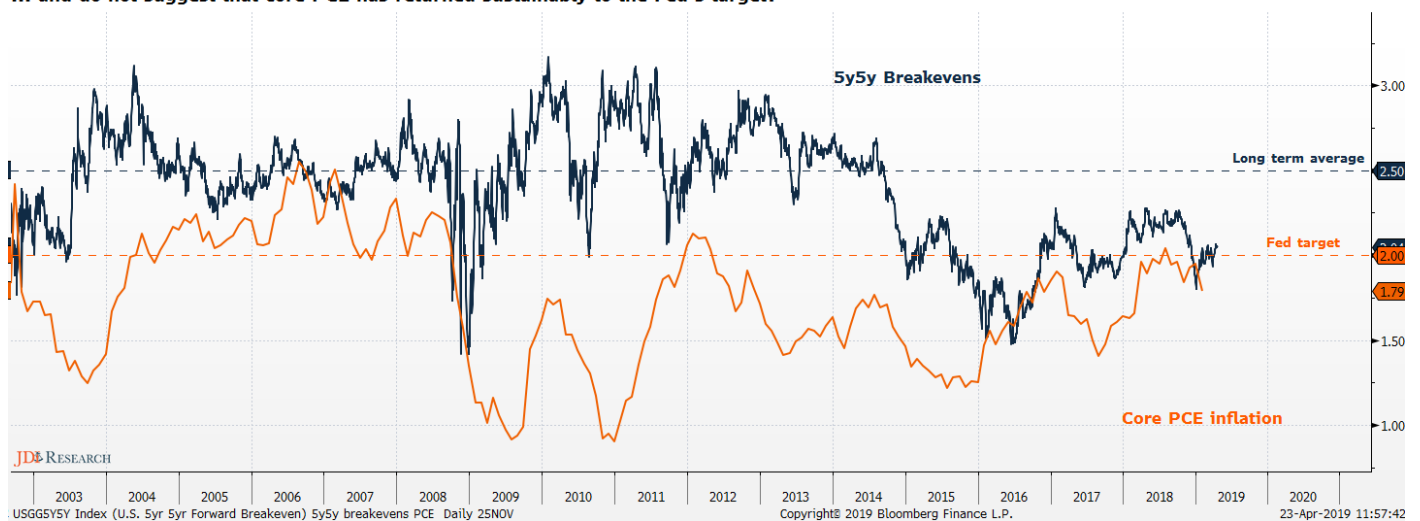


Chart 5:

The 2018 monetary policy shift away from inflation targeting towards a financial stability mandate...
... has further damaged Central Banks' credibility and played a key role in further depressing inflation expectations:



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Chart 6:

FOMC participants stress the "symmetric" policy around its 2% inflation target ...
... Yet, no FOMC participant sees upside risk to inflation!

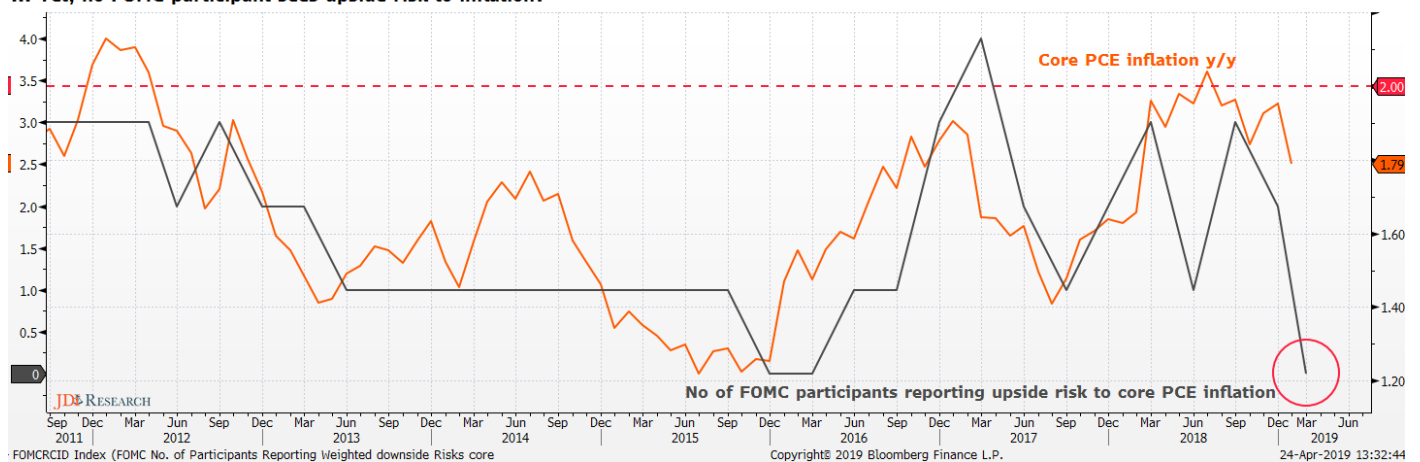
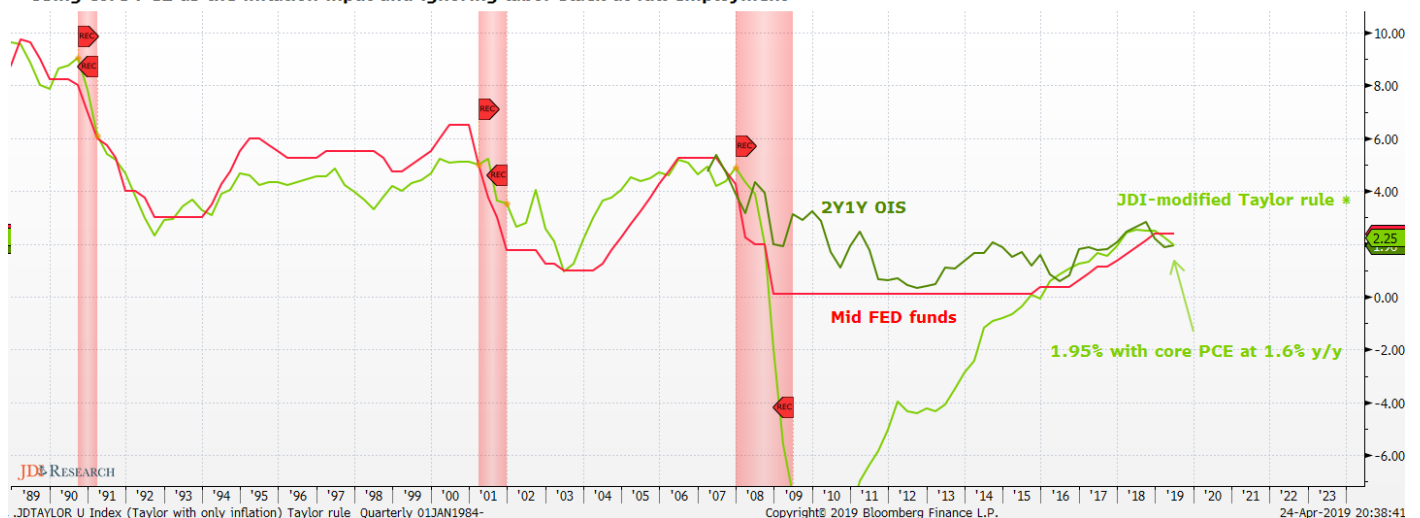


Chart 7:

In absence of a "wage spiral", the Fed can continue to focus solely on inflation:
*** Using core PCE as the inflation input and ignoring labor slack at full employment**



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Chart 8:

VIX positioning at all time short ...

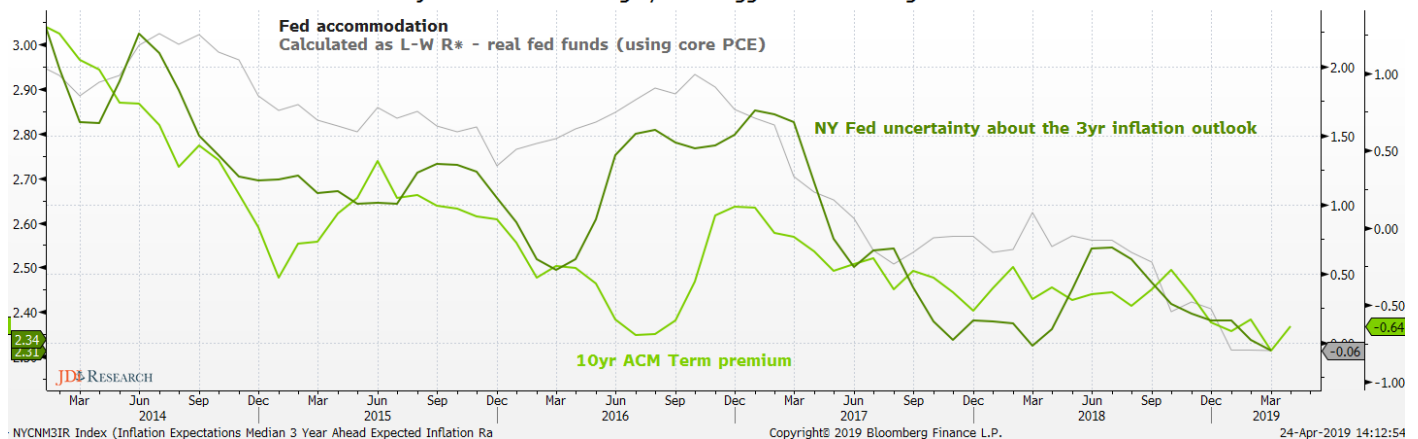
... Certainty awakens speculative animal spirits and breeds financial instability:



Chart 9:

The Fed is responsible for the collapse of the LT term premium ...

... With its faint-hearted commitment to a symmetric inflation target, it has rigged the inflation game and cemented the low inflation outlook:



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Chart 10:

Make no mistake, the main source of reflation from 2016 was the weaker USD ...
... which has now become a deflationary force:

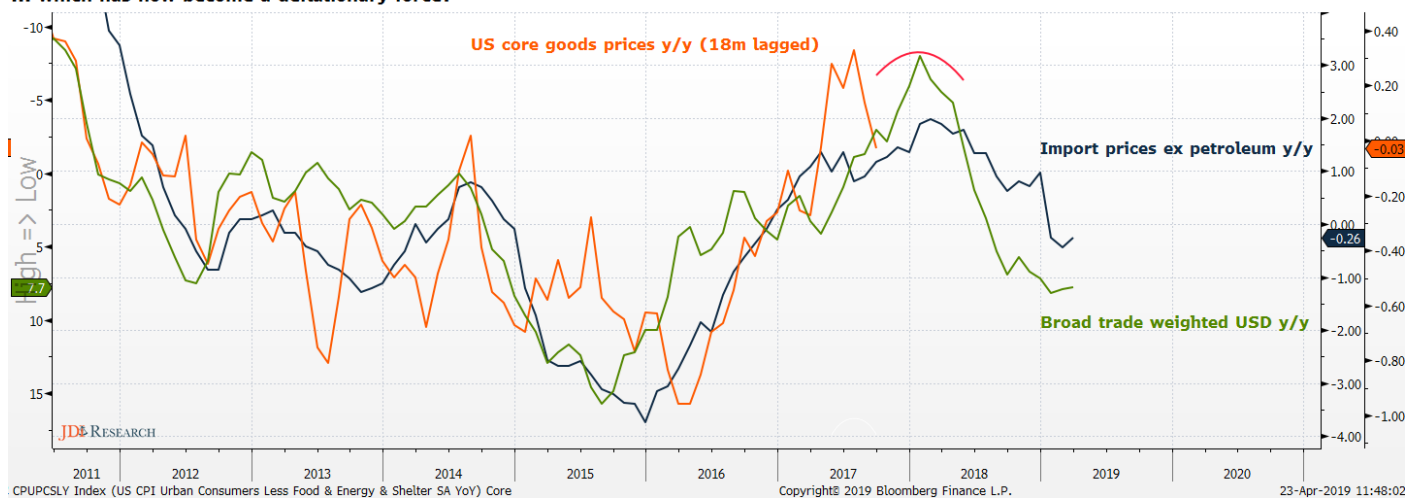
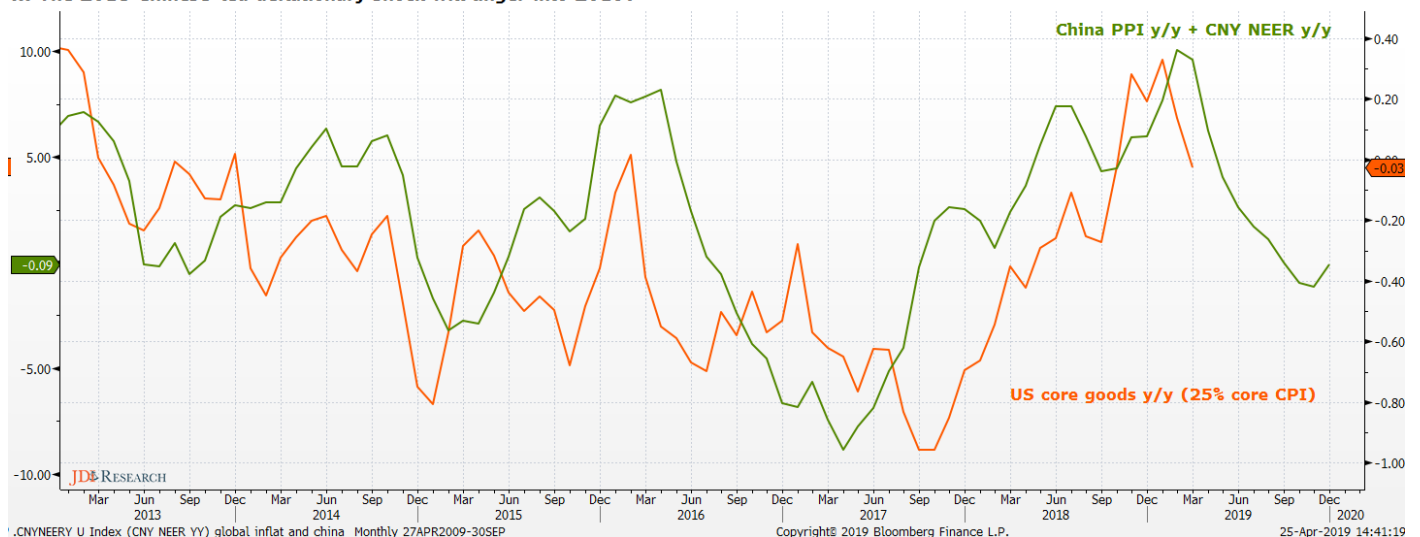


Chart 11:

Inflation is the mother of all lagging indicators ...
... The 2018 Chinese-led deflationary shock will linger into 2019:



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Chart 12:

Productivity growth has more than offset wage growth ...
... keeping Unit Labor Costs and cost-push price pressure in check:

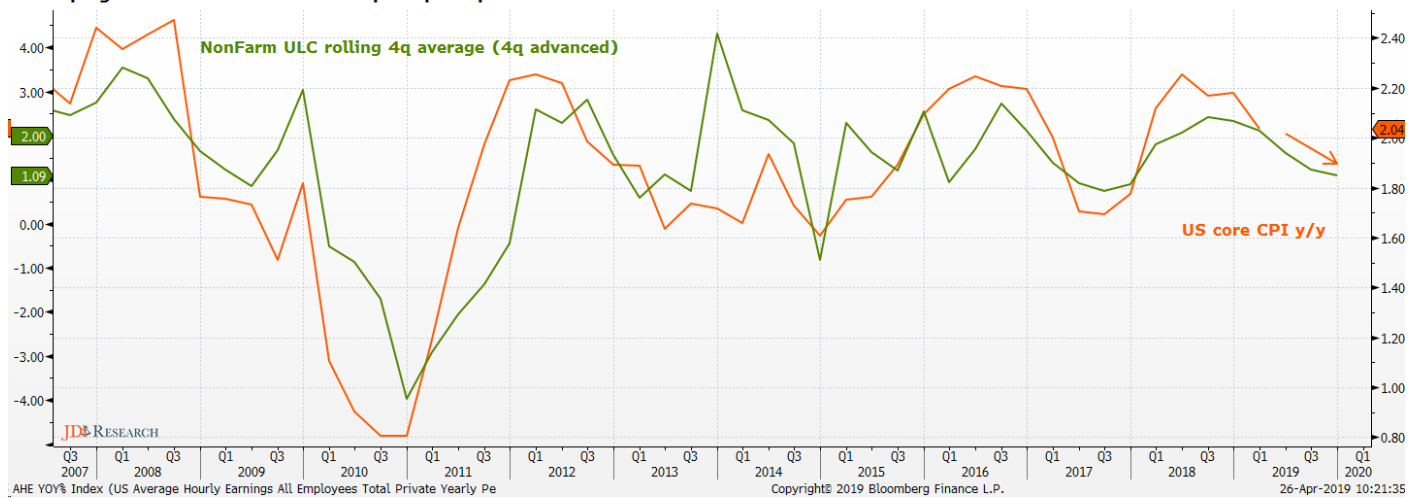
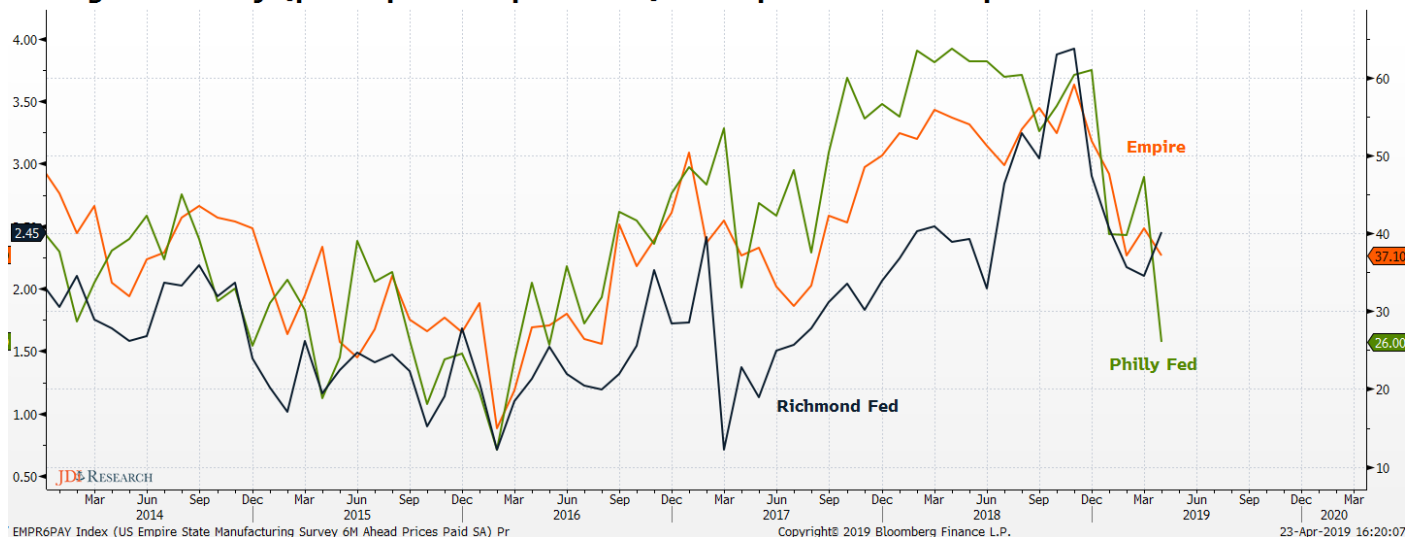


Chart 13:

US regional survey (prices paid - expectations): Cost pressures are expected to subside ...



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Chart 14:

Energy prices remain deflationary and global CBs are not coming to the rescue this time:

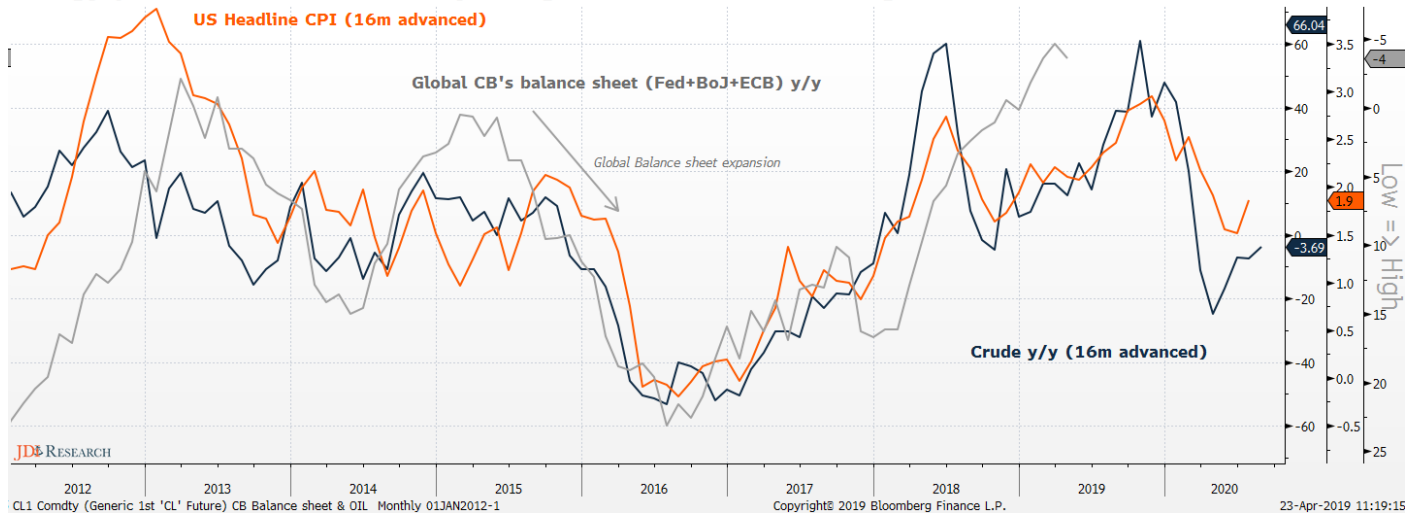
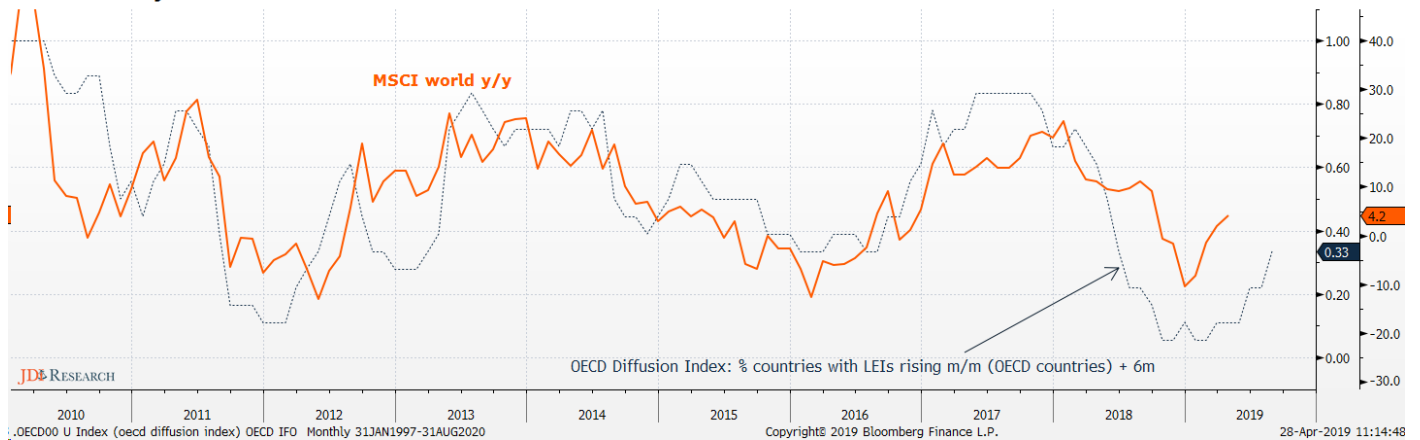


Chart 15:

The OECD leading indicator diffusion index suggests a timid bounce in global activity in H2 ...
... but it is fairly discounted:

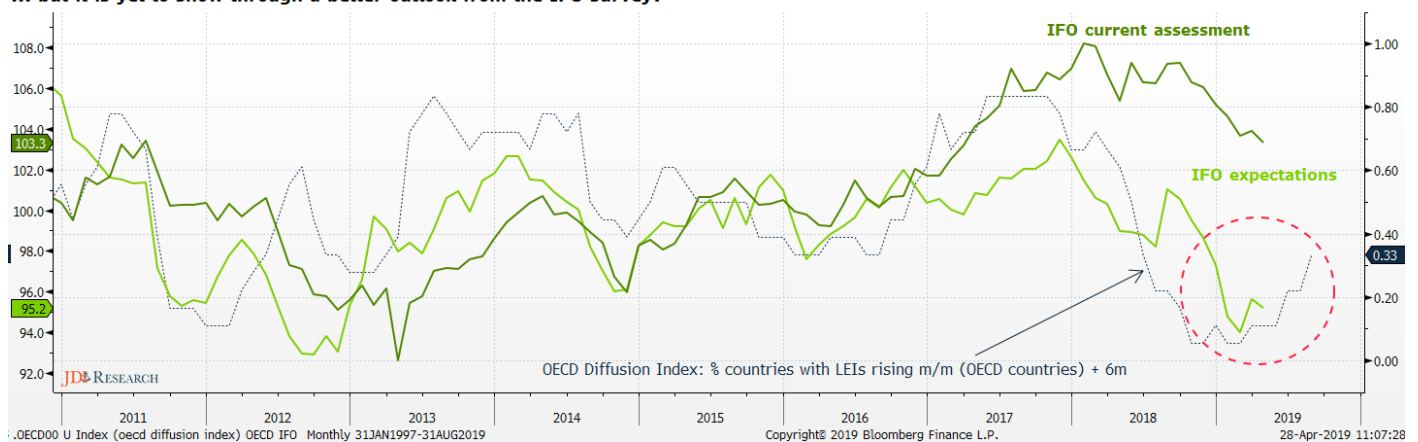


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Chart 16:

The OECD leading indicator diffusion index suggests a timid bounce in global activity in H2 ...
... but it is yet to show through a better outlook from the IFO survey:



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