



# REFLATION'S #ROLLOVER

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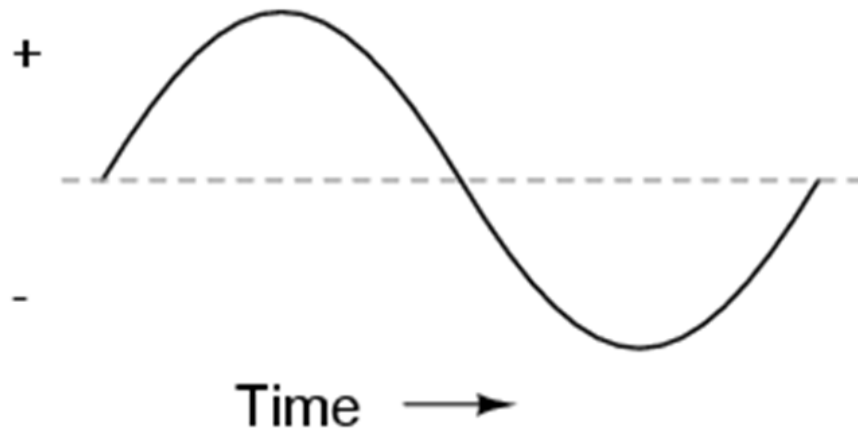
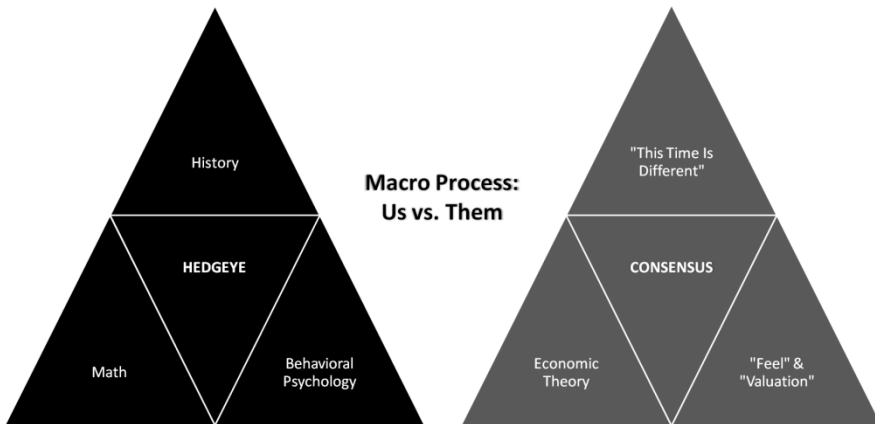
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# PROCESS: RATE OF CHANGE CENTRIC



## DIFFERENTIATED FROM THE HERD

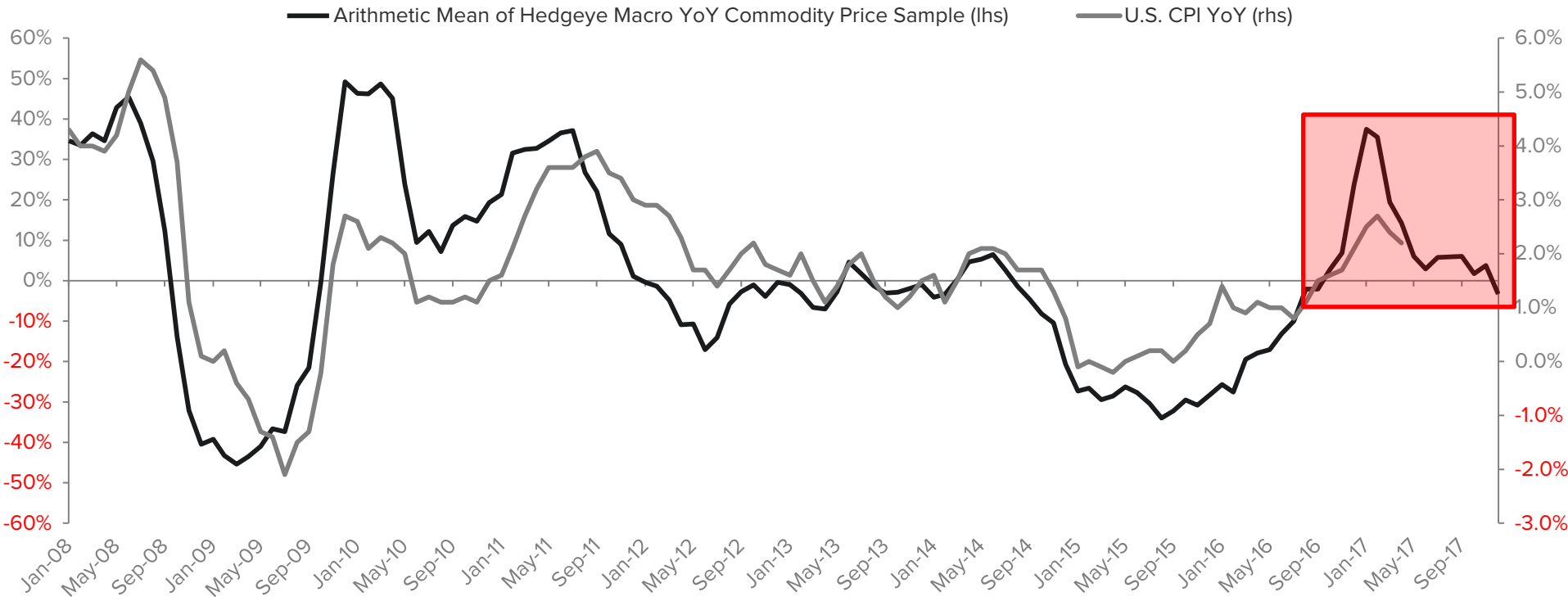
Macroeconomics and Global Macro Risk Management are two very different fields. We specialize in the latter, incorporating key lessons of behavioral finance such as Prospect Theory and Bayesian Inference into our analysis.

## WE FOCUS ON THE SLOPES

Everything that matters in Global Macro occurs on the margin. Our key differentiator is an ever-present focus on rates of change, which helps us front-run changes in sentiment among investor consensus and policymakers – both of whom tend to overweight absolute states in their analysis.

# REFLATION IS PAST-PEAK IN BASE EFFECT TERMS

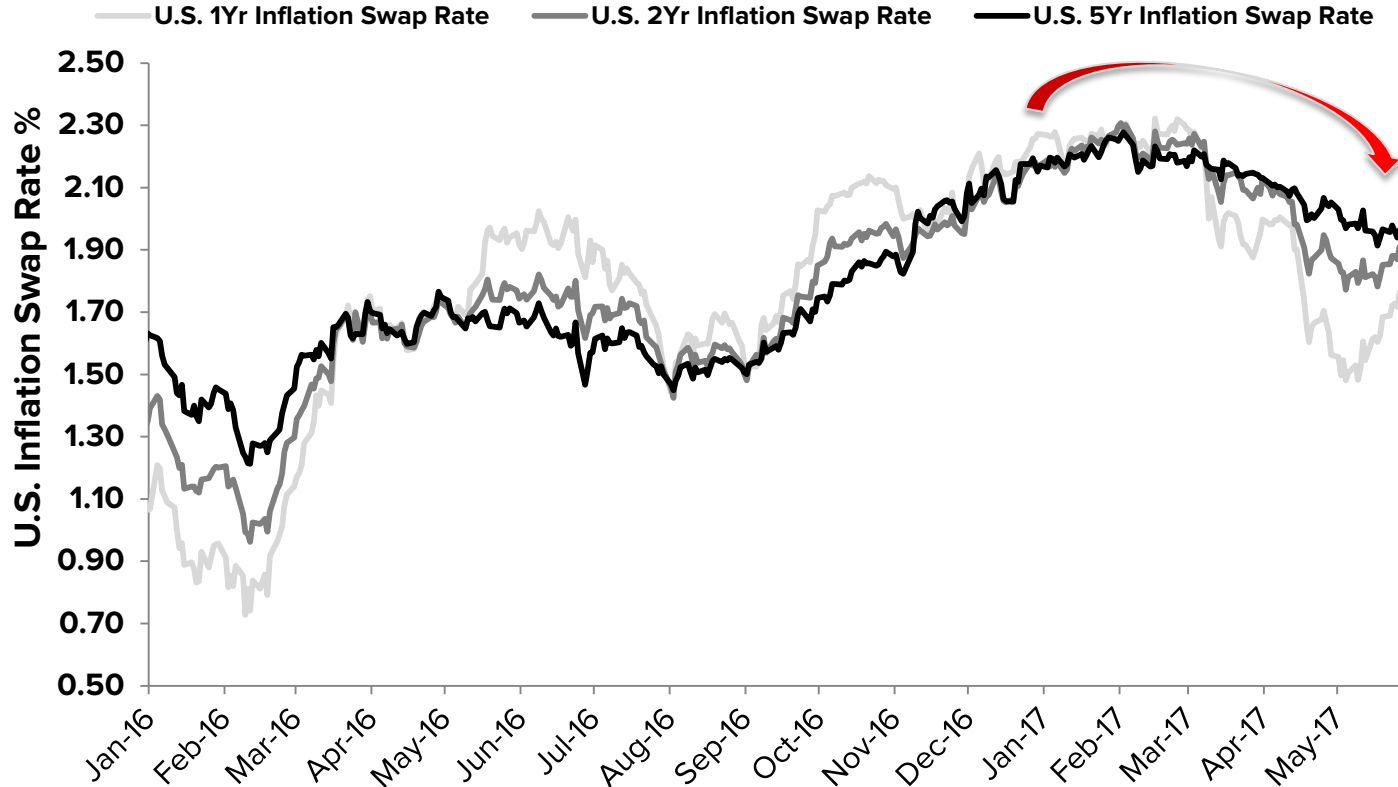
THE Y/Y GROWTH RATE IN OUR COMMODITY PRICE SAMPLE, WHICH HAS BEEN A GOOD PREDICTOR OF CPI, CLEARLY PEAKS ON A SECOND DERIVATIVE BASIS IN Q1 OF 2017 BEFORE EASING INTO Q2.



The Hedgeye Macro commodity price sample includes the CRB Index, CRB Raw Industrials Index, Brent Crude Oil and the UN Food and Agriculture Price Index. YoY deltas are calculated from monthly averages. Forward estimates assume no change to current monthly averages.

# SO ARE INFLATION SWAP RATES

## U.S. INFLATION SWAP RATES STARTING TO PRICE IN REFLATION'S ROLLOVER

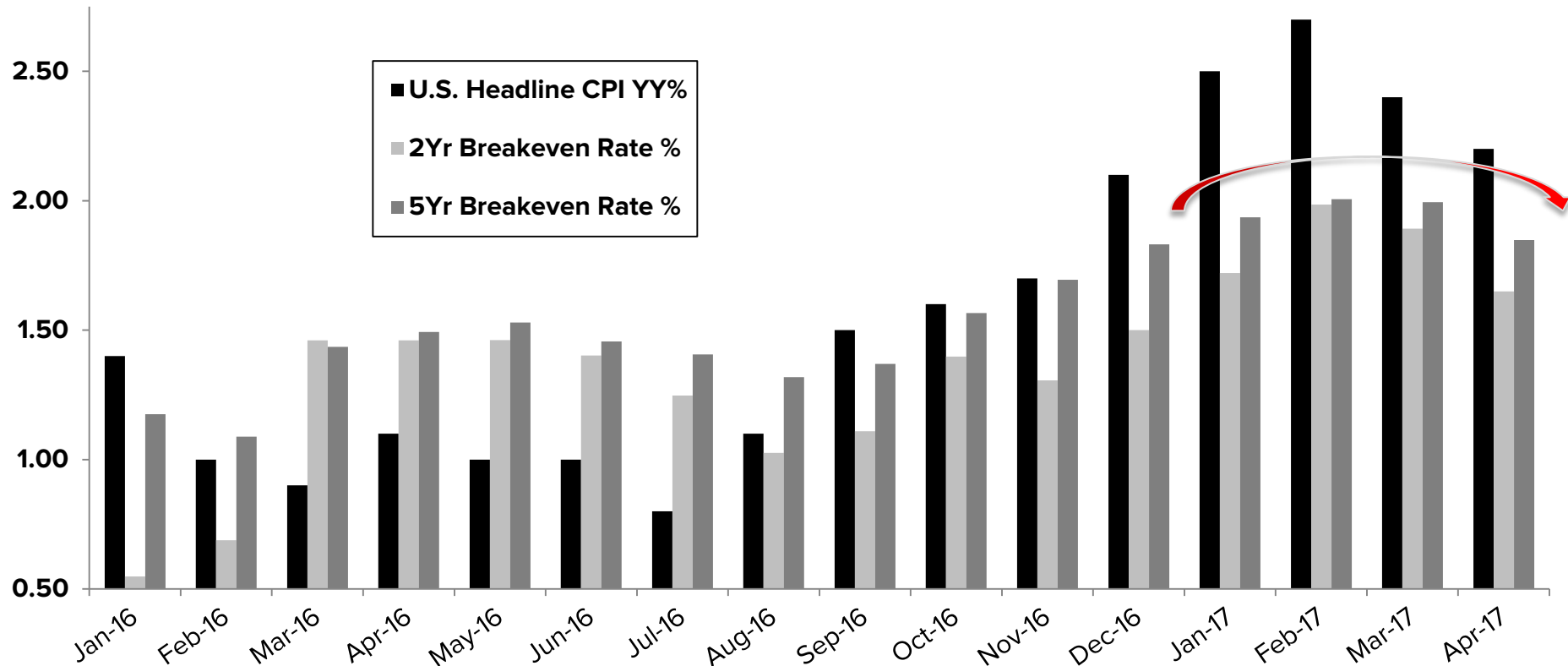


The inflation swap rate is the zero coupon fixed rate necessary to build a swap against U.S. headline CPI. It is composed from several different sources.

A 5Yr5Yr inflation swap rate is found by taking the difference between the 10Yr and 5Yr zero coupon inflation swap rates and multiplying by 2. **It's an indication of long-term inflation expectations.**

# BREAK-EVENS AND REFLATION'S ROLLOVER

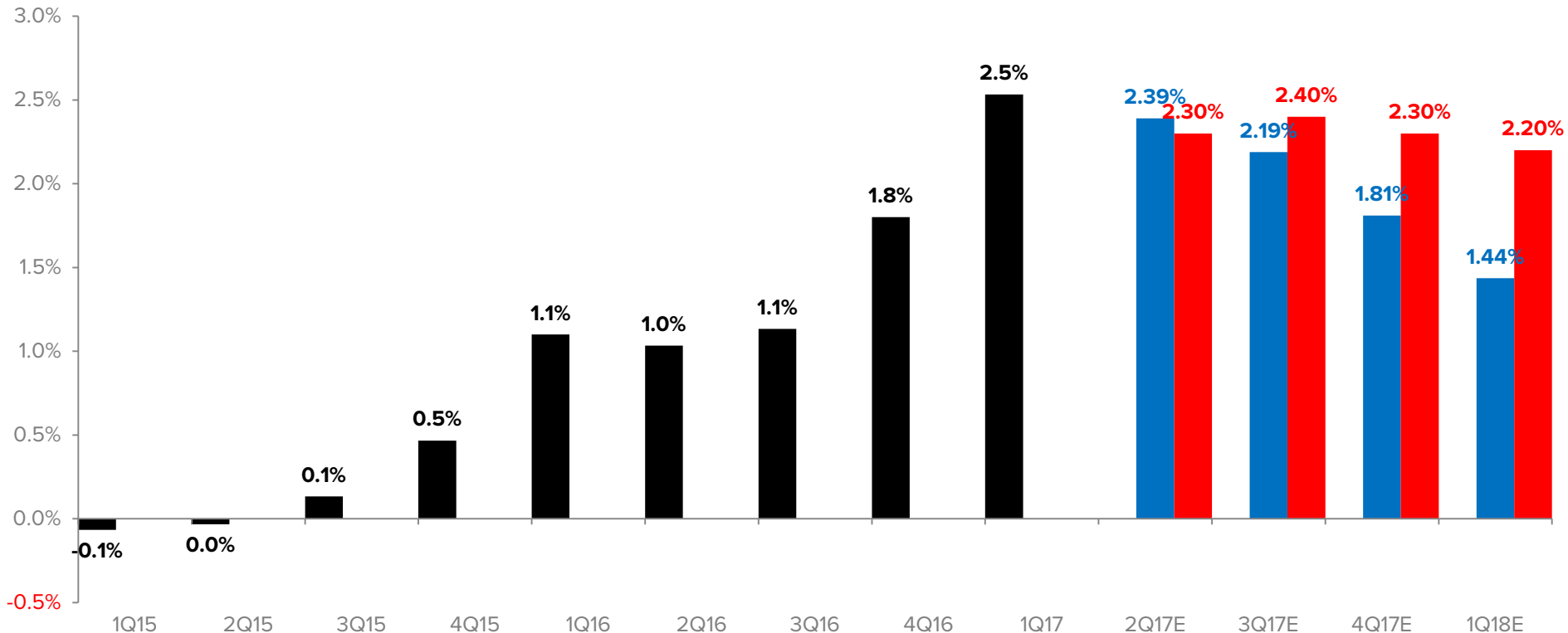
2YR & 5YR BREAKEVENS A GOOD CPI FRONT-RUNNER LIKE OUR PROPRIETARY COMMODITY PRICE SAMPLE



# REPORTED INFLATION SHOULD ROLLOVER AS A RESULT

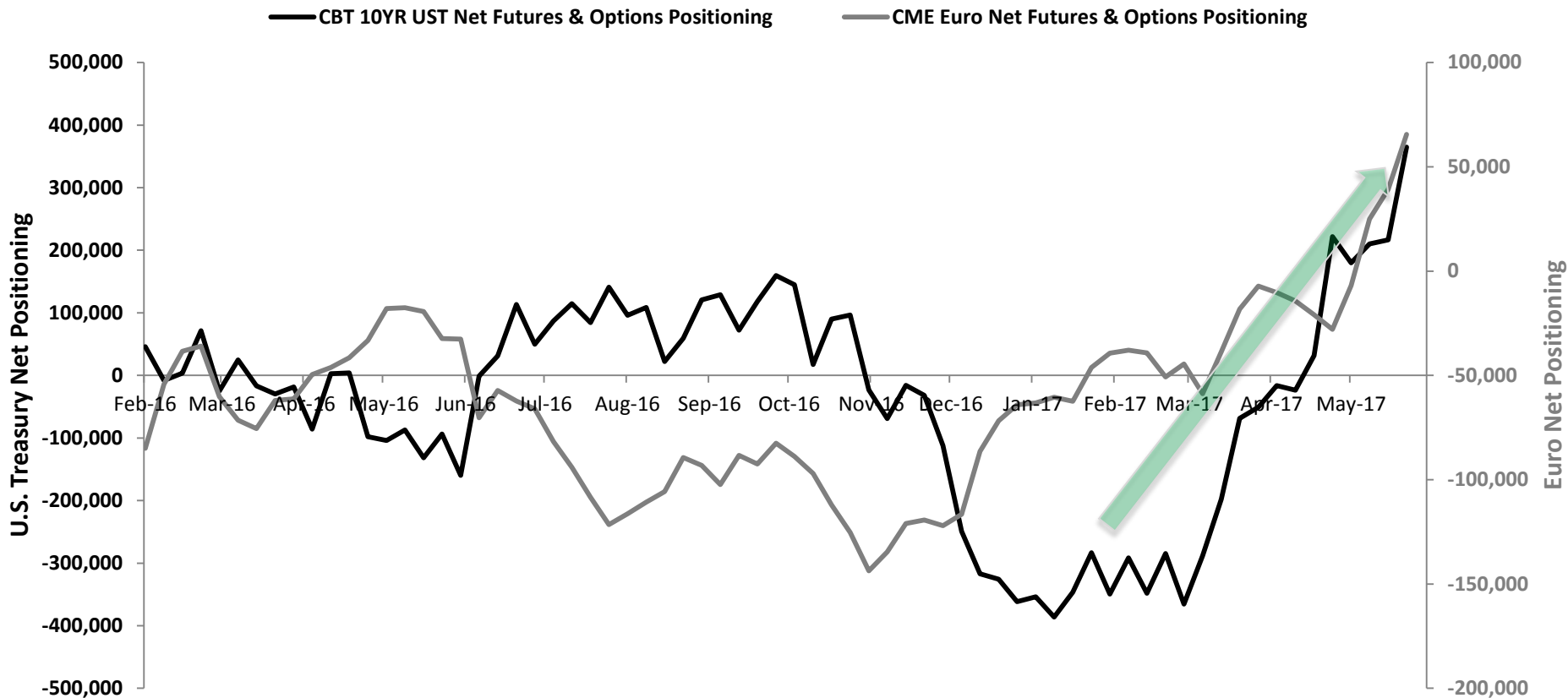
UNITED STATES Headline CPI - YoY % Change (quarterly average)

■ Actual ■ Hedgeye Estimates ■ Bloomberg Consensus Estimates



# A HEALTHY FLUSH FOR RELATIVE US GROWTH BULLS

US GROWTH AND DOLLAR BULLS HAVE SEEN A HEALTHY CONSENSUS FLUSH IN WHAT WAS EXTENDED NET SHORT POSITIONING IN THE EURO AND TREASURY CONTRACTS.





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