

# FX

TRADER MAGAZINE

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PROXY

FX NEW ANTI  
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inflation  
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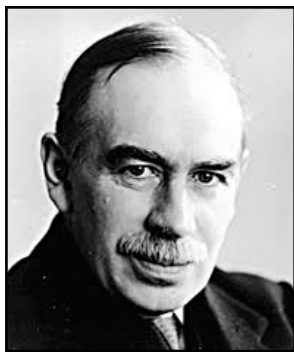
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Driving the risings is a feeling that the regimes have deprived the public of political and economic rights.



Instability in the Arabian Peninsula has huge implications, from energy supply to US military operations dynamic.



## INFLATION and REVOLUTION

*“By a continuing process of inflation, government can confiscate, secretly and unobserved, an important part of the wealth of their citizens.”*

(John Maynard Keynes, Economic Consequences of Peace)

### WHAT DRIVES INFLATION?

Rising inflation is usually toxic for financial markets, therefore it is a topic of great importance to investors. Currently, after a few months of improving economic conditions from Western economies and the menace of deflation having diminished, the debate is as hot as ever: is inflation rearing its ugly head after being for several years off market players radar screens ?

For some the combination of extremely easy monetary policies, huge government deficits and rising commodity prices are classic signals that a serious inflation problem is inevitable. The alternative view is that lots of slack in labor and goods markets will keep a tight lid on price pressures

in the developed economies for the foreseeable future.

Economic theories are obviously not as deterministic as physics' theories. Inflation in particular is a difficult beast of its own. In a 2007 speech then Federal Reserve Vice Chairman Don Kohn said that: “we should always keep in mind how little we know about the economy...we face a number of sources of uncertainty about the nature of the inflation process...we do not yet have a consensus structural model of inflation dynamics that satisfactorily explains all the important aspects of the empirical data...it is clear to me that our understanding of the inflation process still has far to go”. Even the

most powerful central bankers in the world admit that they don't really know what causes inflation.

To summarize, it is possible to classify three different, but interrelated, views of what drives inflation:

- Monetarism: inflation is caused by too much money chasing too few goods.
- Cost-push: rising input prices (e.g. commodities and wages) force companies to boost prices.
- Demand pull: a strongly-growing economy gives companies more pricing power and employees more wage bargaining power.

Clearly, there are linkages between