



CONY Flash Macro Note

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Flash Macro Update (10/10/2019)

After the lower than expected PPI data, which showed no cost pressure on prices in September, today's CPI inflation was important, since it would have affected FED's willingness to go for further cuts. But just like the PPI inflation reading, the CPI inflation data proved once again that the long-awaited inflation is not coming. In fact, the data also showed that the ongoing trade war between China and US did also not have a material impact on prices yet. Apparently, companies' profit margins are wide enough to absorb the first round of trade shocks, while global growth seems to slow down nowadays.

In September, monthly CPI inflation came in at 0.0%, which was lower than the consensus of 0.1%. With the September figure, annual CPI inflation was 1.7% as of end-September remaining unchanged compared to end-August. It is worth reminding that annual CPI inflation at the end of 2018 was 1.9%. In other words, annual CPI inflation is even below where it was at the end of 2018 hinting that the long-awaited inflationary pressure is still not coming.

On the other hand, monthly core CPI inflation, which excludes food and energy, registered a 0.1% increase compared to the expectations of 0.2%. Annual core CPI inflation was 2.4% in September which was also 2.4% in end-August that is still in line with the FED's inflation target.

When we look at the details of the inflation reading, we observe that there was again one sector/segment, which resulted in a volatility in the inflation data. That sector was the energy/transportation sector. Gasoline prices were down by 2.4%, auto prices and overall transportation prices were down. Apparel and medicine joined energy in September with some price cuts, whereas there were some increases in other sectors.

In terms of monetary policy, we think that the data provides room to FED to cut the rates further if economic activity related data show further signs of weakness. In the coming period, FED will continue to monitor: 1- GDP & overall economic activity, 2- Developments on the global growth front, 3- Course of trade talks between US & China, 4- Developments on the Brexit front.

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