CONY Flash Macro Note	December 11, 2019

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Flash Macro Update (12/11/2019)

Last FOMC of the year will be held today. But ahead of the FOMC meeting financial markets were waiting for November CPI inflation data, which also was the last inflation reading of the year. The CPI inflation data proved once again that the long-awaited inflation is still not in the horizon, and the details were pretty much in line with FED's and market's expectations.

The data also continued to show 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.

In November, monthly CPI inflation came in at 0.3%, which was slightly higher than the consensus of 0.2%. With the November figure, annual CPI inflation was 2.1% as of end-November compared to 1.8% in October 2019. It is worth reminding that annual CPI inflation at the end of 2018 was 1.9%. It was 2.1% in end-2016 and 2.1% in end-2017. In other words, annual CPI inflation still stays where it was at the end of last three years 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 0.2% increase compared to the expectations of 0.2%. Annual core CPI inflation was 2.3% in November remaining unchanged and 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 volatility in the inflation data. That sector was as usual the energy sector. Gasoline prices were up by 1.1% in November after rising by 3.7% in October. All other sectors (except the price cut in airline fares and price increase in tobacco) behaved in November.

In terms of monetary policy, we think that the data provides no room to FED to cut the rates further and does not give any reason to hike its interest rates. FED already signalled that for a new monetary policy action, it will wait. In our view, in the coming period, rather than inflation 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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