CONY

CONY Flash Macro Note July 11, 2019

www.corpny.com

Flash Macro Update (07/11/2019)

So many FED related events, meetings, speeches, testimonies, etc. were observed in the last two weeks, which basically overshadowed high frequency macro data. However, today's CPI inflation was important, since it would have affected FED's willingness to go for deeper cuts. June CPI inflation in the US was a tad high compared to expectations. In our opinion, the CPI inflation data confirmed that the FED could cut its interest rate in its end-July FOMC meeting, but the cut will be limited with 25 bps. Apart from the announcement effect of the data, we do not foresee major price changes in financial markets after the data.

In June, monthly CPI inflation came in at 0.1%, which was slightly higher than the consensus of +0.0%. With the June figure, annual CPI inflation was 1.6% as of end-June coming down from 1.8% in end-May and 2.0% in end-April. It is worth reminding that annual CPI inflation at the end of 2018 was 1.9%. In other words, annual CPI inflation is now 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 0.3% increase compared to the expectations of 0.2%. Annual core CPI inflation inched up from 2.0% in May to 2.1% in June that is in line with the FED's inflation target.

When we look at the details of the inflation reading, we observe that there was one sector/segment, which resulted in a volatility in the inflation data. That sector was the energy sector. Gasoline prices were down by 3.6%, auto prices were up slightly, airline fares were down in parallel to the decline in global oil prices and overall transportation prices were down in June. Pretty much all other non-energy/transportation related sub-categories posted increases in line with the headline CPI inflation except apparel which posted a 1.1% m-o-m increase in June.

The inflation data along with the previously released job data suggest that the FED will consider cutting its rate in July, but for further rate cuts in the remainder of the year, FED would prefer to monitor couple of things, in our view: 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.

Ozgur ALTUG
Chief Economist
CONY Global Macro Strategy