



CONY Flash Macro Note

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Flash Macro Update (06/12/2019)

US May CPI inflation data was seen as the most important data of the week, as FED's FOMC meeting approaches and rate cut expectations continue to pile up. And the data was released today supporting the rate cut camp in financial markets. A higher than expected figure could have killed rate cut expectations and could also 'kill' the rally in the fixed income market, but apparently it was not the case.

In May, monthly CPI inflation came in at 0.1%, which was in line with the consensus of +0.1%. With the May figure, annual CPI inflation was 1.8% as of end-May coming down from 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 not coming.

On the other hand, monthly core CPI inflation, which excludes food and energy, registered also a 0.1% increase compared to the expectations of 0.2%. Annual core CPI inflation inched down from 2.1% in April to 2.0% in May 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 had a sizeable influence on the data. That sector was the transportation sector. Gasoline prices were down, auto prices were down and overall transportation prices were down in May.

Pretty much all other sub-categories posted increases in line with the headline CPI inflation except transportation, airline fares and tobacco. We were arguing that with the increased global energy prices, airline fares that were falling in the last two months might recover in the coming months. Finally, in May airline fares were up by 2.0%.

The inflation data along with the previously released job data do suggest that the FED might consider cutting the rates somewhere in the remainder of the year. But we do not think that FED will change its 'wait and see' approach this month. It is worth noting that the May PPI data, which was released yesterday, did not provide any shocking news for financial markets. Annual PPI inflation declined to 1.8% suggesting that there was no additional cost-push inflation.

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