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CONY Flash Macro Note **March 12, 2019**

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Flash Macro Update (03/12/2019)

February CPI inflation figures did not create a big excitement in financial markets. A much lower than expected figure could have sparked fears that the demand is slowing down sharply in the U.S. but apparently it was not the case.

In February monthly CPI inflation came in at 0.2%, which was perfectly in line with expectations. With the February figure, annual CPI inflation was 1.5% as of end-February coming down from 1.6% in end-January. 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 also inched down from 2.2% in January to 2.1% in February.

When we look at the details of the inflation reading, we observe that there were sizeable increases in food and energy (mostly gasoline price increases by 1.5%) by around 0.4% in February that pushed the monthly headline inflation higher. But we also see that price cuts in motor vehicle and healthcare sector (medicine and care prices were down) limited the increase in headline CPI inflation. It is worth noting that airline fares posted a 0.5% increase in February after cutting the fares by more than 2% in the previous two months. Rising oil prices started to show its impact on airline fares.

The inflation data along with the previously released job data do not suggest that the FED should fine-tune its current monetary policy stance right now. FED recently employed a 'wait and see' approach and the recent dataflow validates this view.

Currently, it is clear cut that U.S. economy is losing its steam and inflationary pressures remain muted. In this environment, one should not expect that FED will hike the rates aggressively and balance sheet contraction will be faster. These tell us that the EM equities and fixed income should do fine and risk appetite should be strong for non-EU asset classes for now.

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