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**Flash Macro Update (09/12/2019)**

After the mild PPI data, which showed no serious cost pressures on prices in August, today's CPI inflation was important ahead of the upcoming FOMC meeting next week. However, it was also clear to anyone that ECB's monetary policy meeting and developments on the trade war front today overshadowed US CPI inflation reading. ECB has cut its interest rate further and re-introduced quantitative easing by around EUR20 bn on a monthly basis to offset any recession risk in the Euro Area. ECB's Draghi stated in the press conference that underlying inflation is muted, and the Bank decided on the need of highly accommodative stance in order to avoid a recession. Draghi also called for support from fiscal policy. In addition, US President Trump postponed new tariffs to China by about 15 days. Both news are welcomed by financial markets and reduced the importance of US CPI inflation for now.

In August, monthly CPI inflation came in at 0.1%, which was perfectly in line with the consensus. With the August figure, annual CPI inflation was 1.7% as of end-August down from 1.8% in end-July. 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 another 0.3% increase compared to the expectations of 0.2%. Annual core CPI inflation increased from 2.2% in July to 2.4% in August that is still in line with the FED's inflation target but it also shows that momentum picked up slowly. 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 again. Gasoline prices were up down 3.5% (it was up by 2.5% in July). Pretty much all other non-energy/transportation related sub-categories posted increases in line with the headline CPI inflation except tobacco and medical care which posted more than 0.5% m-o-m increases in August.

In terms of monetary policy, we think that rather than today's CPI inflation print, actions of ECB will be more importantly. Politically, the pressure on FED will increase further to deliver a (sizeable) cut on September 18 despite the fact that inflation data hints a 25 bps rate cut at best. Ongoing uncertainties regarding trade war and Brexit will also exert further pressure on FED.

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