CONY Flash Macro Note February 13, 2019

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Flash Macro Update (02/13/2019)

After the better-than-expected job data at the beginning of the month, market participants were curious about the January CPI data, which was released today. Any high print could have disturbed the current market sentiment significantly. But it was not the case.

Monthly headline CPI in January came in at 0.0% compared to the market consensus of 0.1%, which brought annual headline CPI inflation to 1.6% in end-January 2019 against the 2018 year-end annual CPI inflation of 1.9%.

On the other hand, monthly core CPI inflation also did not surprise on the upside. Monthly core CPI inflation was 0.2% in January that was perfectly in line with the forecasts. With the January data, annual core CPI inflation was 2.2% remaining unchanged compared 2018 year-end.

The January inflation data broadly suggest that US economy does not have an additional inflationary pressure right now while the economy continues to grow. Naturally, the economy will normalize once the impact of tax cuts wears off, but a sustainable growth around 2% seems to be likely throughout 2019.

When we look at the details of the January inflation reading, we see that price cuts in gasoline and overall energy exerted downward pressure on headline CPI inflation. Global energy prices recovered in February and we might observe the opposite in the coming months. It was eye-catching that gasoline prices were cut by almost 6% in January.

Although it is too early to say that US economy will not face any inflationary pressure in the short-term, the data should give more comfort to equity & fixed income investors in the short-term. While we think that inflationary pressures could gain momentum in the coming months, it is clear that market players will not be worried about inflation for now. Probably, focus will shift to growth-related high frequency data in the short run.

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