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CONY Flash Macro Note | **November 13, 2019**

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Flash Macro Update (11/13/2019)

One of the most important data releases of the month was the October CPI inflation and the data did not produce any shocking news for financial markets. The CPI inflation data proved once again that the long-awaited inflation is still not in the horizon, and the details were pretty much in line with FED's and market's expectations. The data also continued to show that the ongoing trade war between China and US did also not have a material impact on prices yet. Apparently, companies' profit margins are wide enough to absorb the first round of trade shocks, while global growth seems to slow down.

In October, monthly CPI inflation came in at 0.4%, which was slightly higher than the consensus of 0.3%. With the October figure, annual CPI inflation was 1.8% as of end-October compared to 1.7% in September 2019. It is worth reminding that annual CPI inflation at the end of 2018 was 1.9%. In other words, annual CPI inflation still stays 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 0.2% increase compared to the expectations of 0.2%. Annual core CPI inflation was 2.3% in October declining slightly from 2.4% in end-September 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 again one sector/segment, which resulted in volatility in the inflation data. That sector was as usual the energy/transportation sector. Gasoline prices were up by 3.7% in October after declining by 2.4% in September and overall transportation prices were up by around 1%. We also observed some price cuts in some sectors including apparel, tobacco and airline fares.

In terms of monetary policy, we think that the data provides room to FED to cut the rates further if economic activity related data show further signs of weakness. But FED already signalled that for a new monetary policy action, it will wait. In our view, in the coming period, rather than inflation FED will continue to monitor: 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.

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