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Flash Macro Update (01/14/2020)

One of the most important data releases of the month was the December CPI inflation and the data did not produce any shocking news for financial markets. As it was the case in previous months, 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. There was little market reaction after the data. The data also continued to show that the trade war between China and US did also not have a material impact on prices.

In January, monthly CPI inflation came in at 0.2%, which was slightly lower than the consensus of 0.3%. With the December figure, annual CPI inflation was 2.3% as of end-2019 compared to 2.1% in November 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 within the forecast range of FED, but it increased a little bit in 2019 compared to 2018.

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 was 2.3% in end 2019 remaining flat compared to one month ago. In end-2018, core CPI inflation was 2.2%. This means that there was no big change in core CPI inflation throughout 2019 compared to 2018.

When we look at the details of the inflation reading, we observe that there were some outliers. For instance, gasoline prices were up by 2.8% whereas airline fares were down by 1.6%. In addition, medicine prices were up by 2.1% m-o-m in December and apparel prices were up by 0.4%. Price changes in other sectors were pretty much in line with the headline CPI inflation.

In terms of monetary policy, we think that the data hints that FED's monetary policy stance is correct for now. US economy keeps on growing at around 2% and inflationary pressures seem to be contained. So, FED will probably continue to wait.

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