



US CPI Preview: Due Wednesday 10th August 2022 at 13:30BST/08:30EDT

EXPECTATIONS: US CPI is expected to rise 0.2% M/M, cooling from the 1.3% prior with analyst forecasts ranging between 0.0-0.5%. The headline Y/Y is seen rising 8.7% from 9.1% (ranges between 8.5-9.0%). The core M/M is expected to rise 0.5% from 0.7% (analyst ranges between 0.3-0.7%), while the Y/Y is seen rising 6.1%, up from the prior 5.9% with forecasts between 6.0-6.2%. Overall, the majority of metrics are expected to cool somewhat, although the Core Y/Y is seen accelerating. After the hot employment report, we are looking at the CPI report to gauge the Fed's reaction function for September but also for the rest of its tightening cycle. The strong jobs report helped put to rest fears of a recession after the two consecutive quarters of contraction given the very strong labour market but the CPI will help determine the Fed's appetite for another 75bp move in September and to see how high the Fed is willing to go, and for how long. There is also room for concern after the July jobs report wages came in above expectations, sparking fears of a wage price spiral down the line.

COMPONENTS: The expected slowing in the headline metrics is primarily due to the fall in energy prices (core CPI Y/Y expected to accelerate, showing price gains in other sectors). JPM believes the fall in gasoline prices will help put energy CPI -3.6%. The desk adds prices for some food commodities are also moving down lately and expect some easing in the rate of food price inflation. On the core metrics JPM are looking for a 0.5% M/M rise and a Y/Y rate of 6.1%, which they write is a solid gain but "it would represent at least some moderation in the monthly rate of core inflation relative to the even stronger figures that were reported for April, May, and June". On rents, JPM expects these to remain strong but are looking for some moderation relative to the robust increase in June, and are looking for an increase of 0.66% for the tenants rent and a 0.67% gain in owners equivalent rent. The bank looks for a decline in travel prices in July with lodging prices down 0.1% and public transport down 2.0%. The desk also adds that vehicle prices saw strong gains in May and June and they are now expecting softer changes for July with new vehicle prices +0.1% and used vehicles -0.2%. Meanwhile, JPM forecasts apparel inflation -0.1%, medical inflation +0.4%, and communication prices -0.2%.

FED: Fed speak is set to pick up after the CPI report, Fed's Evans and Kashkari are due on Wednesday after the CPI report while Daly is to speak on Thursday and we will likely have more unscheduled speakers. We will be looking to their remarks for clues to gauge their appetite for another 75bp move in September and to see how high the Fed is willing to go, and for how long. The strong jobs report helped put to rest fears of a recession after the two consecutive quarters of contraction given the very strong labour market. However, with US CPI released on Wednesday, this will likely have more influence on the Fed's thinking giving inflation is their priority. SGH Macro's Tim Duy writes "An equal to, or worse-than-expected, July core-CPI print will likely back the Fed into another 75bp rate hike in September." Even in the wake of the employment report, Fed's Bowman suggested "similar-sized" rate hikes should be continued until inflation sees a meaningful decline, while Daly reiterated the Fed is nowhere done on their inflation fight while 50bp is not the only option on the table.

KEY UPCOMING DATA POINTS

- US CPI (July): Wednesday 10th August.
- US PCE (July): Friday 26th August.
- US NFP (August): Friday 2nd September.
- US CPI (August): Tuesday 13th September.
- US FOMC: Wednesday 21st September.
- US PCE (August): Friday September 30th.

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