Preview: US CPI due Wednesday 12th June at 13:30 BST / 08:30 EDT

EXPECTATIONS: Headline CPI is expected to rise just 0.1% in May, down from 0.3% in April, with the range of analyst forecasts between just 0.1-0.2%. The Y/Y is expected to maintain the prior month's pace at 3.4%, with forecasts between 3.3-3.5%. The core metrics are expected to see the M/M match April's 0.3% pace, with analyst forecasts ranging between 0.1-0.3%. The Y/Y is expected at 3.5%, down from the 3.6% in April, with forecasts between 3.4-3.6%.

INFLATION PROGRESS: After a string of hot inflation reports in Q1, the April CPI was the first to show some inflation progress return in 2024, something that Fed officials have acknowledged, but caveated they are not there yet. Fed's Waller noted in the wake of the data that it suggests progress towards the 2% target has likely resumed, but he admitted the progress was modest. This data will be used to help confirm if that progress is continuing, and at what pace, or perhaps stalling, or even reversing.

FED: The hot Q1 inflation reports had questioned whether the Fed has done enough to return inflation to target. The Fed largely toed the line that they will keep rates at the currently restrictive level for a longer period of time, and that further rate hikes were not the base case. Nonetheless, some had opted to leave the options of rate hikes on the table in case inflation reaccelerated. Ahead of last week, money markets were fully pricing in two 25bp rate cuts from this year, however, the hot May NFP report saw these expectations ease with now just one rate cut fully priced. The CPI data will help either cement market expectations for one rate cut, or if it comes in on the soft side it will likely see markets start to price in two rate cuts with more conviction.

The data may also have implications for the FOMC rate decision due later on Wednesday, which also releases its updated Dot Plots. Fed Chair Powell in December noted that "participants are allowed to, encouraged to update their SEP forecast until probably midmorning today", therefore some may revise their dot plots on the day of the FOMC after they see the CPI data.

JPM SCENARIO ANALYSIS:

Given CPI is on the same day as the FOMC, JPM highlights there is a possibility of a CPI outcome being reversed by Powell's press conference. JPMorgan's trading desk assigns different probabilities to certain outcomes and explains how they would expect markets to react.

5% probability: Core CPI comes in at 0.4%: Expect to see a 12-15bps yield increase as part of a bear flattening while 2024 rate cut bets would evaporate and views of a rate hike will return. Chair Powell would also suggest rates are not restrictive enough. The desk expects SPX to fall 1.5-2.5% in this scenario.

15% probability: Core CPI between 0.35-0.4%. Bonds react negatively and the September and November rate cut views decrease. SPX falls 1-1.25%.

40%: Between 0.35-0.40%: Given the bond yield movement on Friday post-NFP, there is likely a more muted response to a hotter print. JPM notes there is a wide range of outcomes since the low end of the range supports the disinflationary trend and the higher end supports the stickier inflation argument. SPX loses 0.75% to gains of 0.75%.

25%: Between 0.25-0.30%. "The market fixing implies a 0.26% core reading and the move in yields may not be as strong as one would expect on a beat where one would expect ~15bps move in the 10Y yield but this is a positive outcome for risk assets as this print would likely restart the Goldilocks narrative with 24Q1 data being viewed as an anomaly. SPX gains 0.75% to 1.25%."

12.5%: Between 0.20-0.25%. Surge in September rate cut expectations, with some likely pointing to July. Notes that putting September back on the table would be viewed favourably by risk assets and could see some yield curve steepening to aid the Cyclicals/Value trade. SPX to gain 1.25-1.75%.

2.5%: Below 0.2%: Look for a collapse in yields, a material increase in July cut expectations, and a rally across all risk assets ex commodities. SPX to gain 1.75-2.5%.

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