



## Preview: US CPI data due on July 11th at 13:30 BST/08:30 EDT

**EXPECTATIONS:** The consensus looks for US CPI to rise 0.1% M/M in June (range of forecasts 0.0-0.2%; prev. 0.0%), while the core rate of CPI is seen rising 0.2% M/M (range: 0.1-0.3%), matching the May reading. The Y/Y expectations are for the headline pace to ease to 3.1% (range: 3.0-3.3%) from 3.3% in May, while the core Y/Y is expected to maintain the May pace of 3.4%, with forecasts ranging between 3.3-3.5%.

**THE POLICY ANGLE:** In remarks at the ECB's Sintra Monetary Policy conference, Fed Chair Powell said that the disinflation trends are showing signs of resuming, noting that the Fed has made quite a bit of progress on inflation, and it is getting back on the disinflationary path. Still Powell reiterated that the Fed needs to be more confident in the sustainability of easing price pressures before it reduces interest rates, and officials wanted to see more data like that which has been seen recently, arguing that the Fed has the ability to take its time. Still, Powell said services inflation was stickier, and while wage increases are moving back down towards more sustainable levels, they are still above where they will wind up in equilibrium. Powell sees inflation getting back to 2% in late 2025 or in 2026 (note: the Fed's median projections see both headline and Core PCE inflation back at the 2% target in 2026). Meanwhile, the FOMC's June meeting minutes noted that several participants said that if inflation were to persist at elevated levels or rise further, rates may need to be raised (though many analysts said this view was outdated given the recent developments in price pressures). Participants saw 'modest further progress' toward the committee's 2% inflation objective in recent months, with May's CPI data seen by participants as providing additional evidence of progress toward the inflation goal. Participants affirmed that additional favourable data were required to give them greater confidence that inflation was moving sustainably towards target, and highlighted a variety of factors that were likely to help contribute to continued disinflation in the period ahead, including: a continued easing of demand–supply pressures in product and labour markets, lagged effects on wages and prices of past monetary policy tightening, the delayed response of measured shelter prices to rental market developments, and the prospect of additional supply-side improvements. Participants also suggested a number of developments in product and labour markets had supported their judgment that price pressures were diminishing. Participants also observed that longer-term inflation expectations had remained well anchored and viewed this anchoring as underpinning the disinflation process. In Powell's Senate testimony, he largely stuck to the script, but given he was speaking on behalf of the FOMC, he did not use the same disinflation language he used at Sintra, which may suggest some of the hawks on the FOMC want more progress before being confident the disinflation progress has resumed.

**FED PRICING:** Money markets are currently pricing in 51bps of easing throughout the year-end, which implies two fully priced rate cuts. The first cut is fully priced by November, but 20bps of easing is priced by the September meeting, which implies an 80% probability of the first cut taking place in September. The dovish pricing has been driven by the soft May inflation reports (CPI, PPI and PCE), as well as a considerably cooler labour market, including commentary from Powell on resumption of the disinflation and a dismal ISM Services PMI. Another cool CPI print could see markets start to fully price, or nearly fully price a September cut but a July cut is largely ruled out and thus pricing for this is unlikely to change much. With two rate cuts fully priced for 2024, markets are currently more dovish than the latest FOMC dot plots with the markets focusing on the data rather than Fed guidance. Nonetheless, although the Median is for one cut in 2024, there are still eight members on the FOMC who pencilled in two rate cuts. Seven pencilled in just one rate cut, but the median was skewed higher with four hawks pencilling in no rate cuts this year.

**MARKET REACTION:** Bank of America said that it expects another soft inflation report that should give the Fed more confidence that inflation is on the right path even though base effects should make it hard for annual rates to show much progress; still, the annual rates are not typically good signals for where inflation is headed, it added. "If CPI prints in line with our expectations, we expect September to remain a live meeting in the eyes of the market," BofA told its clients, "macro data has weakened substantially, with the Economic Surprise Index at the lowest level since January 2016, which should lead to inflation cooling with macro and inflation back in sync." Its analysts think that the potential downside risk to equities on a hotter CPI print outweighs the potential upside on a softer print. It told its clients that it would be prudent to hedge into the CPI data, especially with Q2 corporate earnings season starting on Friday. "Macro data has weakened substantially, with the Economic Surprise Index at the lowest level since January 2016, which should lead to inflation cooling with macro and inflation back in sync," it wrote, "we believe that the focus is shifting from an inflation/rate-driven market to a growth-driven market."

**JPM SCENARIO ANALYSIS:** JPM assigns a probability to each Core CPI M/M outcome and what the implications may be for the SPX on the day. Note, JPM suggests that SPX options imply a +/- 0.9% move.



- Core CPI > 0.3%: 2.5% probability, SPX falls 1.25-2.50%.
- 0.25-0.30%: 15% probability, SPX falls 0.75-1.25%.
- 0.20-0.25%: 30% probability, SPX gains 0.25-0.75%.
- 0.15-0.20%: 35% probability, SPX gains 0.50-1.00%.
- 0.1-0.15%: 15% probability, SPX gains 1.00-1.50%.
- <0.1%: 2.5% probability, SPX gains 1.00-1.75%.

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