



Preview: US CPI due Wednesday 11th June 2025 at 13:30 BST/08:30 EDT

Expectations: Headline CPI is expected to rise by 2.5% Y/Y, vs the April read of 2.3%, with forecasts ranging between 2.2-2.7%. The M/M print is expected at 0.2%, matching the prior pace. Core CPI is expected to rise by 2.9% in May, accelerating from the prior 2.8%, with analyst forecasts ranging between 2.7-3.1%. The M/M core print is expected to tick up to 0.3% from 0.2%.

Survey Data: May's ISM PMI surveys showed price components remain elevated: manufacturing "prices paid" eased slightly to 69.4 from 69.8, while services rose to 68.7 from 65.1. In terms of inflation expectations, the Final UoM survey saw inflation expectations for the 1yr rise marginally to 6.6% from 6.5% in April, but the 5yr expectations fell to 4.2% from 4.4%. Meanwhile, the NY Fed survey saw consumer inflation expectations ease across forecast horizons. The median 1-year ahead inflation expectations fell to 3.2% from 3.6%, 3yr to 3.0% from 3.2% and the five-year to 2.6% from 2.7%. The easing of inflation expectations has largely been due to the preliminary tariff agreement with China to lower tariffs until August 10th.

Tariff impact: The data will be watched to see if US President Trump's tariffs are starting to have an impact on consumer prices. Fed's Goolsbee had warned that the April inflation reports may have been the last vestige before inflation starts to rise in the wake of tariffs. However, there is also an argument that firms may not raise prices until current inventories are worked through, which may take a couple more months due to excessive front-loading seen before April. The latest Fed's beige book, based on information up until May 23rd, saw that contacts that plan to pass along tariff-related costs expect to do so within three months. It also reported that prices have increased at a moderate pace since the previous report. Goldman Sachs expects tariffs to raise goods prices and overall inflation in the coming months. In May's CPI data, the desk expects a small impact, with core inflation rising 0.05% to 0.25% M/M. Looking ahead, GS suggests core inflation could reach 3.5%, up from April's 2.8%, despite easing pressures from labour, housing, and autos. The desk also expects flat hotel and airfare prices, with most inflation coming from goods, not services, in the short term.

Fed Inflation Debate: Fed's Kashkari has stated there is a healthy debate at the FOMC on whether to look through the price-related increases from tariffs, but he finds the arguments against looking through tariff-driven inflation more persuasive. Several others, including Kugler, appear to share this view, with Kugler noting that the impact of tariffs on prices may be more permanent. Goolsbee, meanwhile, also noted that he is a little "gun-shy" about arguing that tariffs will have a transitory effect on inflation. The other side of the argument, however, is Governor Waller, who believes that tariffs will result in a one-time price increase, and said that it is standard central bank practice to look through one-off price increases.

Fed Rate Outlook: The recent NFP report was robust, which saw traders dial back Fed rate cut expectations with two rate cuts no longer fully priced. At the time of writing, money markets are pricing in 45bps of easing by year-end, which fully prices one Fed rate cut with an 80% probability of a second. The latest Reuters Fed survey saw 59/105 analysts suggest the Fed will resume cutting rates next quarter, likely in September, with 60% of economists suggesting the Fed will cut at least twice. This is only a slight majority and shows the range of expectations among participants, given the lack of guidance from the Fed. Fed speakers have urged a wait-and-see approach, avoiding tying themselves to guidance, but Daly had suggested two rate cuts still seem reasonable, while Bostic still thinks that one rate cut is fair - but both caveat that it largely depends on how the economy evolves. Markets are largely looking towards incoming data to shape Fed expectations. If inflation continues to come in hot, it is likely the Fed will have to hold for longer, providing the labour market holds up. The recent jobs report was solid and helped ease economic fears in the wake of Trump's policies, however, it is still too soon to determine the economic impact. Some Fed speakers have argued inflation may start to show up first, but it is unclear when other parts of the economy (labour market, growth) will react. Several Fed speakers have also warned that the growth data is distorted due to front-loading imports - which are a negative subtraction in the GDP calculation, so it can be tricky to get an accurate read of actual economic growth.

JPM CPI Scenarios (10th June)

JPMorgan provide their CPI scenarios based on the Core M/M print, noting that SPX options price +/-1% implied move

- 0.4% (5% probability): SPX down 2% - 3%
- 0.35% - 0.4% (25% probability): SPX down 1.25% - 1.75%
- 0.3% - 0.35% (35% probability): SPX down 0.25% - up 0.75%
- 0.25% - 0.3% (30% probability): SPX up 1% - 1.5%
- < 0.25% (5% probability): SPX up 2% - 2.5%

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