PREVIEW: US CPI due Tuesday, August 12th 2025

EXPECTATIONS: US July CPI is expected to rise by +0.2% M/M at the headline level (prev. +0.3%), with the annual rate seen rising to 2.8% Y/Y from 2.7%. The core rate of inflation is expected to rise by +0.3% M/M (prev. +0.2%), with the annual rate of core inflation expected to rise to 3.0% Y/Y from 2.9%. Wells Fargo says that the data will bring further signs of higher tariffs pushing up prices. “It is still early in the price adjustment process to see how higher import taxes will ultimately be distributed between the end-customer, domestic sellers and foreign exporters,” the bank writes, “at the same time, growing consumer fatigue is making it more difficult to raise prices in general.” Looking ahead, Wells Fargo expects inflation to pick up, but not ratchet higher, in H2 of this year, and sees both the core CPI and core PCE deflators returning to around 3% in Q4. The June Fed median projections saw headline PCE at 3.0% by year-end with core PCE at 3.1%.

FED IMPLICATIONS: Some on the Fed are more concerned about the labour market (Waller and Bowman), but others still believe that inflation is further away from the Fed’s goals. High inflation and fears of higher inflation ahead in response to tariffs is seeing the Fed hold a wait-and-see approach. However, with the recent July NFP report painting a softer picture of the labour market, markets are now looking for a rate cut in September - currently prices a 25bps rate cut with a 89% probability. Fed’s Daly has since spoken on the matter, noting the Fed cannot wait forever. Meanwhile, Kashkari said if inflation rises due to tariffs, the Fed could pause, or even hike. He also stated that if the best thing to do now is cut, and then pause, or even reverse the cut later, it is better than sitting on hold until they get clarity on tariffs. A hot inflation report may keep some on the Fed hesitant to endorse rate cuts, but given the latest NFP report which saw a notable slowdown across the last three months, albeit unemployment rate was steady at 4.2%, doves will likely be willing to cut now to help support the labour market while arguing that tariff related price increases will only be a one-time event. The hawks may still argue the Fed is missing its goals on inflation, with the labour market at or near maximum employment. Fed's Musalem on Friday said the Fed is now missing on the inflation target, but it is not missing on the employment mandate.

JPM SCENARIOS: JPMorgan's Trading desk, in a note released Monday, August 11th, provides their expected SPX reaction on the day based on where Core CPI prints, and an assigned probability to each print. The desk notes that, based on Friday's closing prices, options that expire Tuesday are pricing in an 87bp move.

- Above 0.4% (5% probability): SPX down 2% to 2.75%
- 0.35% - 0.4% (25% probability): SPX down 0.75% to up 0.25%
- 0.3% - 0.35% (35% probability): SPX flat to up 0.75%
- 0.25% - 0.3% (30% probability): SPX up 0.75% to 1.2%
- Less than 0.25% (5% probability): SPX up 1.5% to 2%

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