Daiwa Capital Markets

U.S. Data Review

- CPI: war-driven pressure in energy prices abated in July, contributing to a restrained headline reading; core rose moderately after rounding to no change in the previous month

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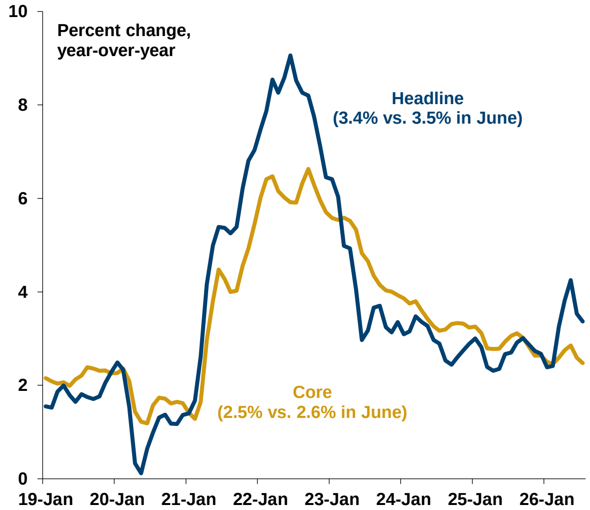
July CPI

- Following a 0.4-percent decline in the prior month, the headline consumer price index rose 0.1 percent in July (in line with the median expectation from the Bloomberg economist survey). The core index, meanwhile, advanced 0.2 percent after rounding up to no change previously (also in line with expectations). Those results corresponded to year-over-year increases of 3.4 percent for the headline (+3.365 percent, with less rounding, versus +3.531 percent in June) and 2.5 percent for the core (+2.478 percent versus +2.594 percent; the slowest pace since March 2021). Following a recent bout of resurgent price pressure tied to the Iran conflict, consumer inflation metrices have settled in the past two months. Thus, the latest developments likely allow the FOMC to remain on the sidelines in September, although vigilance is required with inflation still well above target.

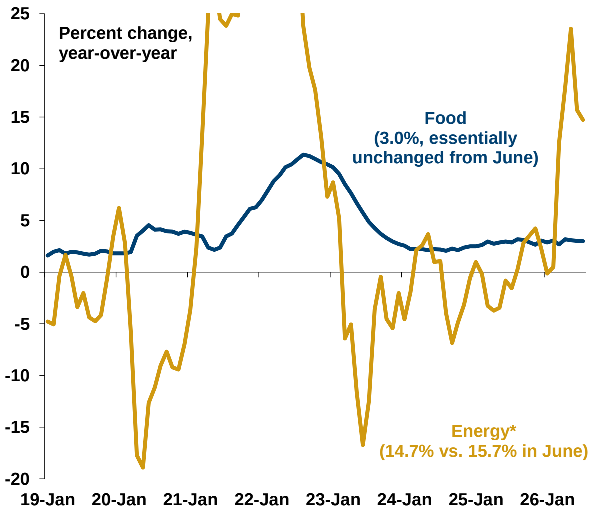
- Turning to the internals of the report, the energy index slipped for the second straight month with a 1.5-percent decline (+14.7 percent year-over-year versus +15.7 percent previously). Factoring into the latest easing, energy commodities fell 2.9 percent (-2.3 percentage points to +24.7 percent year-over-year), influenced by a 2.9-percent drop in gasoline prices. Contrastingly, energy services firmed up for the seventh time in the past eight months with a 0.3-percent increase (+0.4 percentage point to +4.3 percent year-over-year), largely driven by a 0.7-percent advance in utility (piped) gas service (+1.3 percentage point to +4.3 percent year-over-year). The food category, meanwhile, rose 0.1 percent in July – a somewhat restrained result compared to recent observations (+3.0 percent year-over-year, essentially unchanged from June). Costs of food at home (i.e., groceries) eased 0.1 percent (+2.7 percent year-over-year, also matching the prior month's pace). Conversely, food away from home (i.e., restaurant meals) increased 0.3 percent (not seasonally adjusted; +3.4 percent year-over-year, approximately the same as June).

CPI: Headline & Core



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Food & Energy

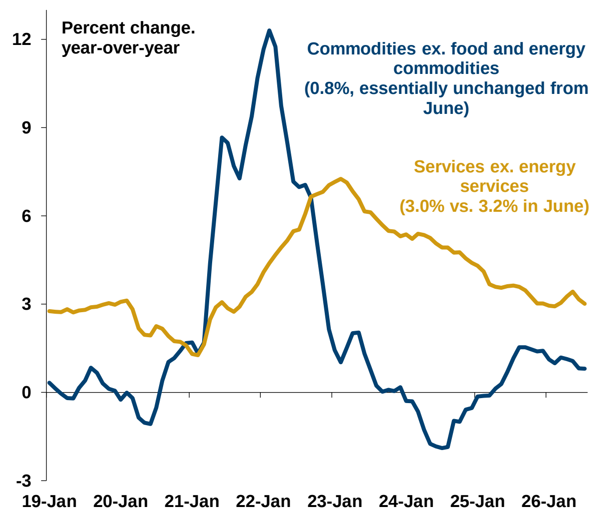


** COVID-related extremes truncated*
Source: Bureau of Labor Statistics via Haver Analytics

- Returning to core, the index for commodities excluding food and energy commodities rose 0.2 percent in July after declines in the previous two months (+0.8 percent year-over-year, essentially unchanged from June). While there were some pockets of pressure, results across components were mostly benign. Among the indexes registering firm increases, information technology commodities jumped 1.4 percent (+2.4 percentage points to -4.8 percent year-over-year), driven largely by an advance of 3.5 percent for computers, peripherals, and smart home assistant devices. Concurrently, used vehicles increased 0.4 percent (-0.1 percentage point to -1.9 percent year-over-year) while new vehicles posted a more subdued advance of 0.1 percent (+0.5 percent year-over-year, matching June's pace). Additionally, recreational commodities, an area exposed to tariffs, firmed up 0.6 percent (+0.2 percentage point to +3.1 percent year-over-year) – although we view broad effects from levies as continuing to abate.

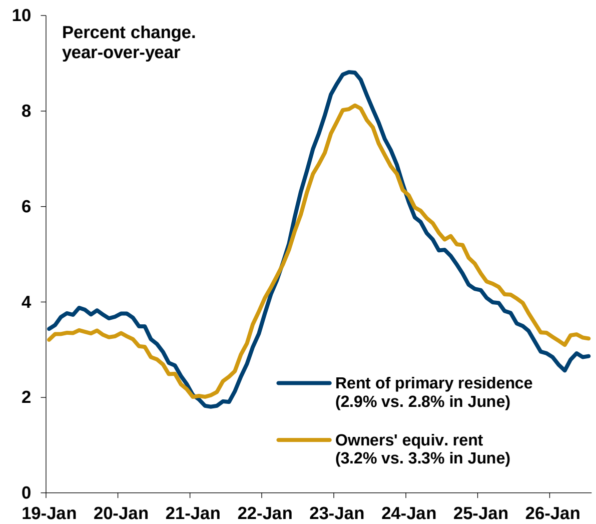
- Following a sideways reading in June, core services prices rose 0.2 percent (-0.2 percentage point to +3.0 percent year-over-year). A few areas registered firm advances. For example, medical care services rose 0.6 percent (-0.3 percentage point to +2.7 percent year-over-year), while airline fares jumped 2.2 percent (-1.0 percentage point to +25.5 percent year-over-year). Other areas recorded favorable performances. In that regard, housing components remained on recent trends, with both rent of primary residence and owners' equivalent rent rounding up to increases of 0.3 percent (+2.9 percent year-over-year versus +2.8 percent previously and +3.2 percent year-over-year versus +3.3 percent in June, respectively). Importantly, the 12-month trends for both components remain in line with the favorable pre-pandemic norms – a necessary condition for an eventual return to 2 percent inflation.

CPI: Core Goods & Core Services



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Housing



Source: Bureau of Labor Statistics via Haver Analytics

- All told, we were heartened by a second consecutive subdued CPI reading, as we view the latest results as suggesting that inflation may be starting to settle. With that said, we readily acknowledge that underlying inflation still remains well above the FOMC's price-stability objective – which may ultimately require a response from the FOMC. Even so, the latest results perhaps alleviate pressure ahead of the September 15-16 policy meeting (although the publication of employment and inflation data for August released ahead of the meeting could alter that view).