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## Core Inflation jumps the most since 2008

- U.S. consumer prices jumped by the most in a decade in July, eroding wage gains that have barely budged in the past four months and strengthening the case for the Federal Reserve to keep increasing interest rates gradually.
- The overall Consumer Price Index (CPI) gauge rose 2.9% in the 12 months through July, matching the survey median.
- The CPI, excluding food and fuel prices rose 2.4% year-on-year, while month-on-month both the main CPI index and core rate rose 0.2%.
- While shelter costs gave a big boost to the results, steady consumer demand is underpinning inflation just as a trade war threatens to lift costs on a range of goods.

### Current Implied Probabilities of a Fed Fund Rate Hike

Meeting	Hike Prob	Cut Prob	2-2.25	2.25-2.5	2.5-2.75	2.75-3	3-3.25	3.25-3.5	3.5-3.75	Fwd Rate
09/26/2018	100.0%	0.0%	96.0%	4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.13
11/08/2018	100.0%	0.0%	90.8%	9.0%	0.2%	0.0%	0.0%	0.0%	0.0%	2.15
12/19/2018	100.0%	0.0%	35.8%	58.5%	5.5%	0.1%	0.0%	0.0%	0.0%	2.30
01/30/2019	100.0%	0.0%	33.7%	57.1%	8.7%	0.5%	0.0%	0.0%	0.0%	2.31
03/20/2019	100.0%	0.0%	15.5%	44.5%	34.9%	4.9%	0.3%	0.0%	0.0%	2.45
05/01/2019	100.0%	0.0%	14.2%	42.1%	35.7%	7.4%	0.6%	0.0%	0.0%	2.47
06/19/2019	100.0%	0.0%	8.8%	31.6%	38.1%	18.1%	3.2%	0.3%	0.0%	2.56
07/31/2019	100.0%	0.0%	8.3%	30.2%	37.7%	19.3%	4.1%	0.4%	0.0%	2.58
09/18/2019	100.0%	0.0%	6.3%	24.9%	35.9%	23.7%	7.7%	1.3%	0.1%	2.64

Source: Bloomberg

- Policy makers are widely projected to lift borrowing costs when they meet in September, with many investors expecting an additional hike before the end of this year.
- Inflation has made progress, and the unemployment rate, at 3.9% in July, signals the Fed is near its maximum-employment goal.
- Sustained progress toward the Fed's goal keeps the central bank on track for one or two more rate hikes this year even as price pressures are a blow to already weak increases in wages.

## U.S. Average Hourly Earnings Private Nonfarm Payroll Total Nominal Dollars Month-on-Month



Source: Bloomberg

- The lack of much real wage growth has become a contentious issue for Republicans and Democrats heading into midterm congressional elections in November.
- The benchmark US 10-year yield was down 3 basis points to 2.8877%, while the 30-year yield was 3 basis points lower at 3.0439%

## U.S. Generic Government 10yr and 30yr yield



Source: Bloomberg



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