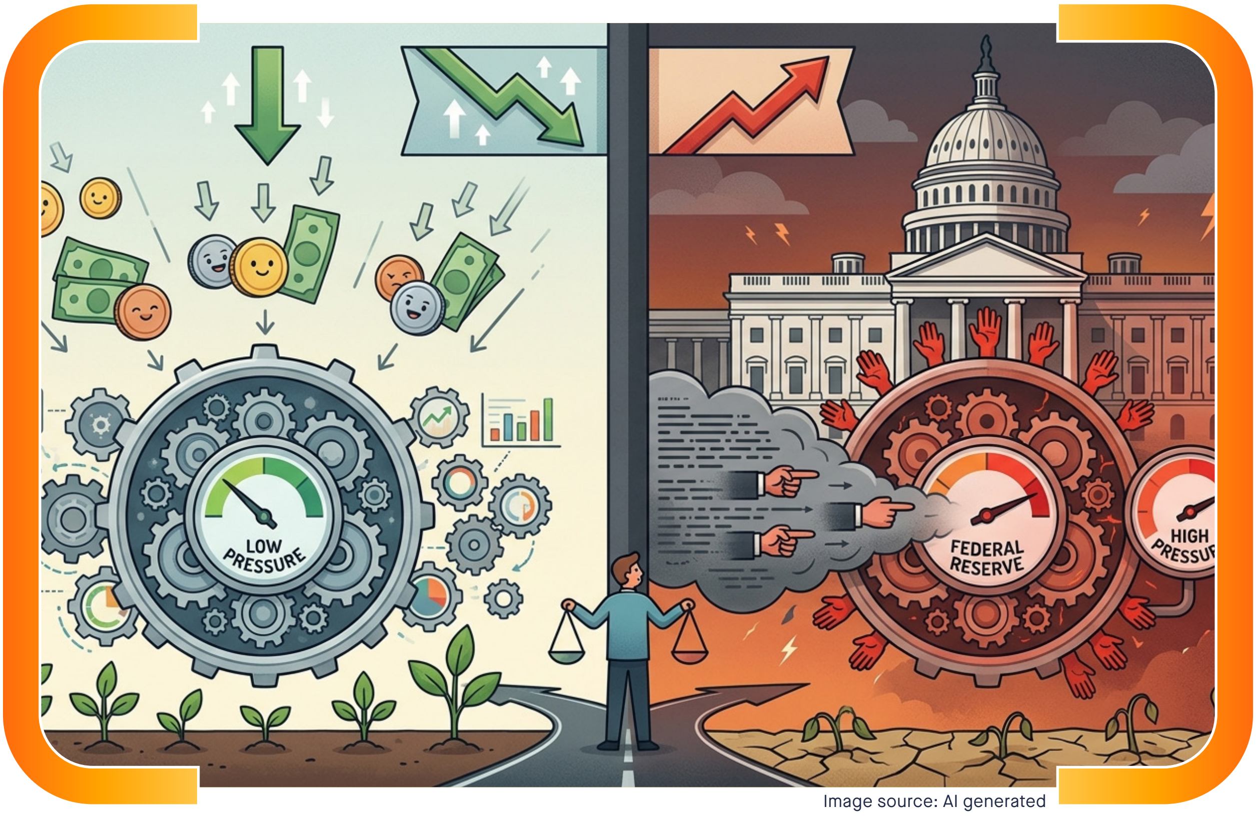
Inflation numbers lowered pressure on the Fed, President Trump increased it



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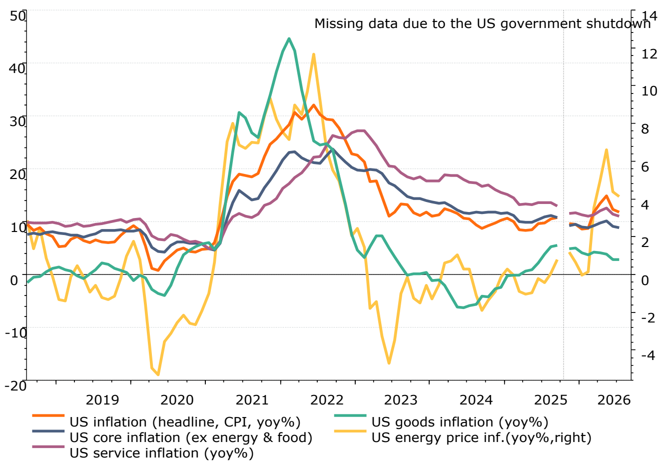
- July's CPI report confirmed that US consumer inflation is cooling, with headline inflation easing to 3.4% and core inflation slipping to 2.5%. Still, underlying measures remain above the Fed's 2% target, so the inflation picture is improving but shows still elevated price levels.
- The PPI release also pointed to easing pipeline price pressures, with final demand prices unchanged in July and the annual rate slowing to 4.7%. Goods prices fell, helped by lower energy and food prices, but some index components remained sticky and will need close monitoring.
- Pressure on the Fed: The latest CPI and PPI data reduce the pressure on the Federal Reserve to raise rates again. President Trump, however, has increased political pressure by renewing his efforts to remove Federal Reserve Governor Lisa Cook. This could revive investor concerns about central bank independence and weigh on confidence in the US dollar.
- Conclusion: Markets have moved closer to our view that the Fed will leave rates unchanged in September. While markets still expect a key rate hike by year-end, we currently forecast no change to key rates in 2026. However, upside risks remain from Middle East tensions, energy prices and the AI boom's impact on electronics prices. We will be following Chair Warsh's upcoming speech at Jackson Hole closely.

CPI data: easing price pressures but still elevated

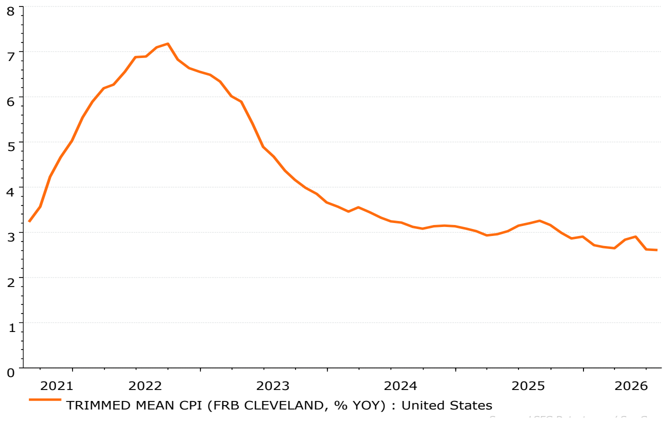
July's CPI report reinforces the message that US inflation is easing, albeit from elevated levels. Headline CPI rose 0.1% in July after a 0.4% decline in June, lowering the annual rate to 3.4% from 3.5% and in line with expectations. Core CPI, excluding energy and food prices, increased 0.2% on the month, with the annual rate slipping to 2.5%. The composition was broadly reassuring: energy prices fell again, food rose only modestly, and shelter added just 0.1%, although rents and medical care remained firm. Easing super core inflation – service prices, excluding energy, food and housing – point to less underlying pressure. New Fed Chair Warsh's favoured measure of underlying inflation, the so-called trimmed mean, also declined in July. Both underlying measures, at 3.1% and 2.6%, still show the elevated price levels respective to the Fed's target of 2%. So far, however, the cooling trend for consumer prices has been confirmed with the July print. Overall, the report reduces the urgency for the Fed to tighten again, while keeping energy markets as the main upside risk.

All main indicators point downwards in July



Source: LSEG Datastream, Syz Group

Underlying inflation measures grind lower but remain on elevated level for now

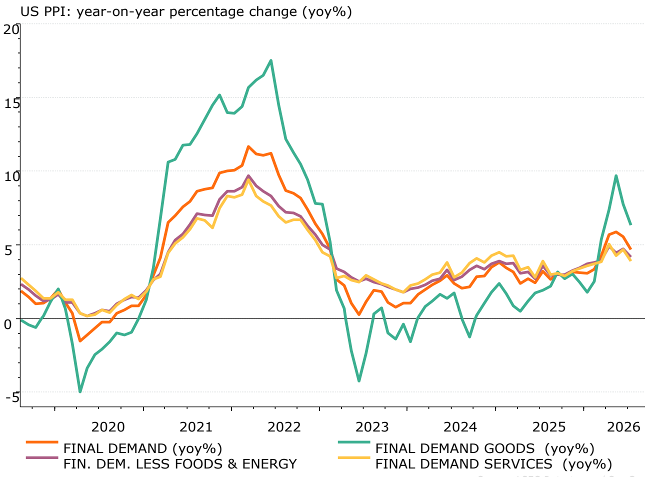


Source: LSEG Datastream, Syz Group

Producer prices show also a cooling in the pipeline

July's PPI release strengthened the "cooling inflation" message. Final demand prices were unchanged on the month, below expectations, and the annual rate slowed to 4.7% from 5.5%. The details were mixed as the PPI excluding food, energy, and trade services increased 0.4%, a tad above expectations but overall constructive. Goods prices fell 0.7%, helped by a 3.1% drop in energy and lower food prices, while services still rose 0.2%. A firmer services component, particularly portfolio management at +6.5% and some health-related categories, matters because several PPI components feed directly into the Fed's preferred PCE inflation gauge. Due to the high July reading for the portfolio management, there is a risk that the PCE will come in somewhat higher than expected. Other parts of the PPI, however, that filter into the PCE as well, came in below expectations. Still, the overall signal is that upstream price pressure is no longer accelerating. This also comes at a cost for some firms as PPI data show lower margins growth relative to input costs. For example, trade margins grew 2.4% compared to a year ago, while core goods prices grew 4.9%. Therefore, the passthrough to consumer prices is fading in certain sectors. Together with CPI, the PPI report suggests the first energy-shock impulse is fading and that also several other underlying trends are declining yet some parts of service prices remain sticky and we will monitor them carefully.

Most major producer price indices decreased in July too, but levels remain elevated



Source: LSEG Datastream, Syz Group

Latest price readings lower pressure on the Federal Reserve to increase key rates

The latest CPI and PPI numbers support the "doves" among Fed decision-makers. They strengthen the case for keeping key rates unchanged at the September meeting. However, the decision is not yet locked in. Before the meeting, the Fed will still receive the July PCE inflation data at the end of August, as well as the next CPI and PPI releases in early September. These data will need to confirm that underlying inflation pressures continue to cool. If they do, the case for another rate hike will weaken further. For now, the latest inflation readings suggest that the Fed can afford to remain patient.

President Trump increased the pressure on the Fed again

President Trump has renewed his efforts to remove Federal Reserve Governor Lisa Cook ahead of the latest inflation data releases. This marks another escalation in his pressure on the central bank's independence. The White House sent Cook a letter asking her to respond within three weeks to unproven mortgage fraud allegations. Her attorney called the allegations "baseless". The renewed pressure comes despite the Supreme Court's 5-4 ruling in June, which blocked Trump's earlier attempt to dismiss her. If there is no valid cause to remove Cook, any dismissal by President Trump, or a potential resignation by Cook, could again raise investor concerns about the Fed's independence. At some point, this could also weigh on confidence in the US dollar.

Market moves towards no key rate hike at the next Fed meeting in September

For investors, the latest CPI and PPI data support a more patient Fed stance. This is also visible in market pricing. The probability of a rate hike at the September Fed meeting has fallen to just above 30%, from more than 50% at the start of the week. This brings market expectations closer to our view that the Fed will keep rates unchanged in September, and most likely until year-end. The move also boosted stock markets and pushed US government bond yields lower across the curve. For example, the 2-year Treasury yield fell from around 4.26% to 4.12% over the course of the week.

Still, upside risks remain. Tensions in the Middle East could keep energy prices elevated. At the same time, the AI boom may continue to put pressure on semiconductor prices and other electronic goods, which feed into consumer prices. Beyond these risks, we will closely watch Chair Warsh's speech at the Jackson Hole central bankers' meeting at the end of August.

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