US CPI: In Line, but Not in the Clear

- Energy removes July's relief but appears insufficient to deliver a meaningful headline CPI beat.
- Continued Lodging weakness should keep core CPI near 0.2%.
- With September hike risk increasingly priced, an in-line CPI should limit further hawkish repricing.

Energy is a Wash, not a Threat

July CPI benefited from lower oil prices, with WTI averaging USD80.46/bbl, down from June's USD84.81/bbl. In August, WTI rebounded to USD83.90/bbl, suggesting that July's energy relief is unlikely to repeat – energy had reduced July headline CPI by roughly 0.11ppt. However, August crude prices were still slightly below June levels, so we expect the energy contribution to look closer to June than materially stronger. In our view, energy therefore removes a source of downside but does not provide a strong case for headline CPI to exceed consensus. With consensus at 0.4% MoM, we think the bar for an upside headline surprise is relatively high.

Lodging Remains Shelter Inflation's Quiet Offset

Consensus projects August headline/core CPI at 0.4%/0.2% MoM. Shelter represents roughly one-third of headline CPI, principally comprising Owners' Equivalent Rent (OER), Residential Rent (Rent), and Lodging Prices. In July, OER was the largest positive contributor, while falling Lodging Prices materially offset increases in OER and Rent. The remaining upside risk is Lodging stabilisation. Holding OER and Rent at July rates, flat August Lodging Prices would raise est. Shelter inflation from 0.14% to 0.25% MoM, adding around 0.05ppt to core CPI versus a repeat of July's Lodging drag. However, August PPI traveler-accommodation prices fell 1.0%, suggesting continued restraint. We therefore expect core CPI to remain near the 0.2% consensus.

Energy-Led PPI Points to Limited Core CPI Surprise

August PPI reinforces our view that energy will provide less inflation relief: headline PPI rose 0.4% MoM, matching consensus, as energy surged 4.2%. However, core PPI increased 0.2%, below the 0.3% forecast. Core goods rose 0.4% and PPI excluding food, energy and trade increased 0.3%, showing that underlying pressure has not disappeared, but PCE-relevant signals remained mixed. More importantly, traveler accommodation fell 1.0%, weakening the case for a Lodging-driven core CPI surprise. We therefore retain 0.4%/0.2% as our headline/core CPI base case, with upside risk concentrated in headline energy. The release does not justify a stronger Fed tightening call; any meaningful repricing now requires a broad CPI upside surprise.

Hike Risk is Priced, but Yields Remain a Constraint

US activity remains resilient: Q2 real final sales to private domestic purchasers grew 4.2% annualised, while August payrolls increased by 160K, beating expectations. This strength keeps further tightening on the table, with Bloomberg WIRP indicating 70% odds of a 25bp September hike and 42bp of cumulative tightening by December. However, with long-end yields elevated and our headline/core CPI estimate in line at 0.4%/0.2%, an in-line print should validate rather than materially raise the expected rate path. High yields continue to challenge, but the main CPI-related downside risk is a broad core surprise strong enough to trigger another leg of hawkish repricing.

Strategy and Recommendations: In-Line CPI Limits a New Rate Shock

We expect August headline/core CPI at 0.4%/0.2% MoM, with energy supporting headline while weak Lodging Prices contain core pressure. With an increasingly hawkish rate path already priced, an in-line print should limit further yield pressure. We recommend maintaining equity exposure rather than de-risking, favouring companies with strong cash flow and earnings visibility. Confirmation is core CPI at or below 0.2%; the key risk is a broad Shelter and services beat triggering renewed hawkish repricing.

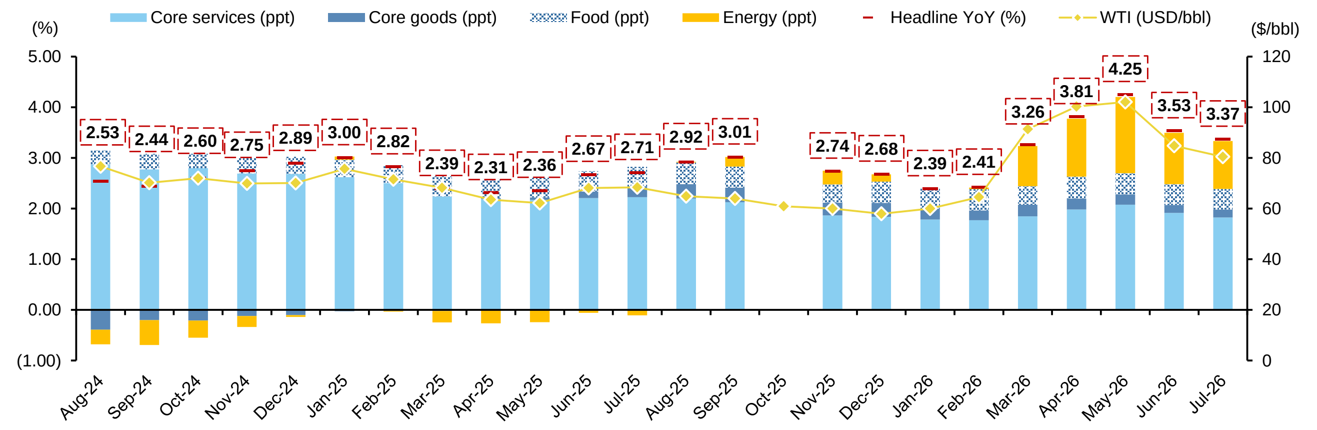
Analyst

Suwat Sinsadok, CFA, FRM, ERP
suwat.s@globlex.co.th,
+662 687 7026

Assistant Analyst

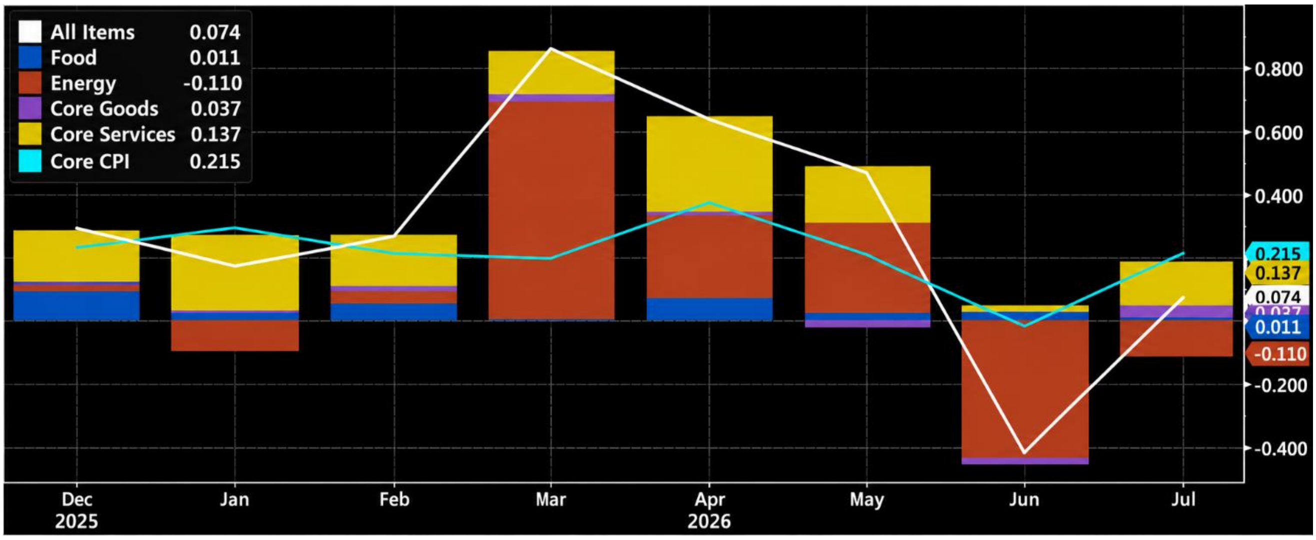
Peerayu Sirivorawong

Exhibit 1: U.S. CPI YoY Contribution by Component; Monthly Average WTI Spot Price



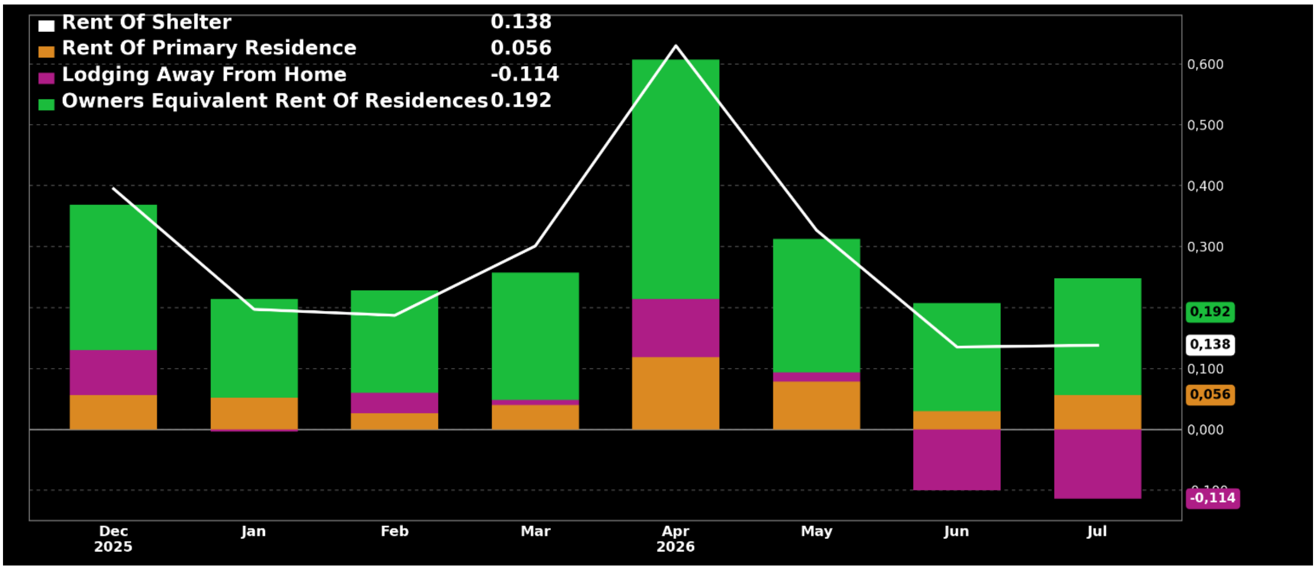
Sources: U.S. Bureau of Labor Statistics, FRED, Bloomberg, Globlex Research

Exhibit 2: Contributions to U.S. CPI MoM



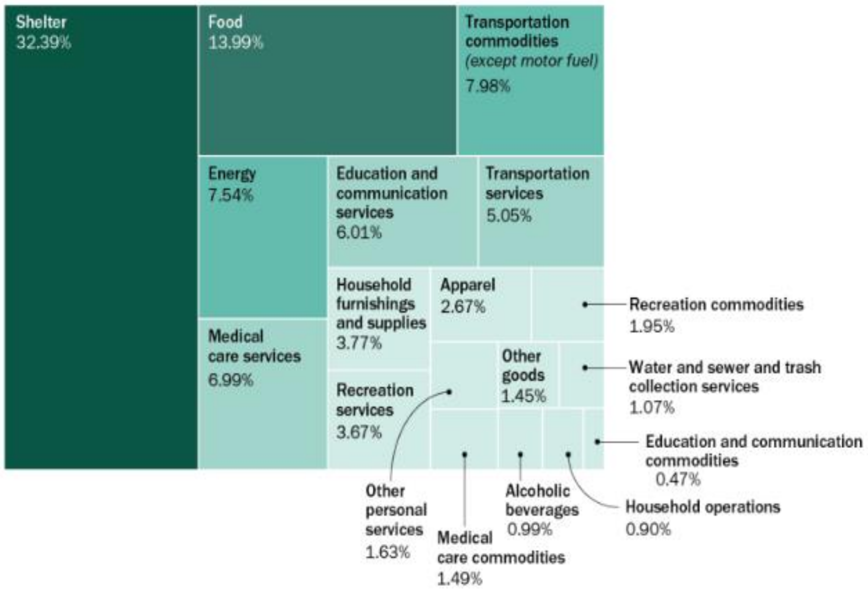
Source: Bloomberg

Exhibit 3: Contributions to U.S. Rent-of-Shelter CPI MoM



Source: Bloomberg

Exhibit 4: Composition of U.S. CPI Basket

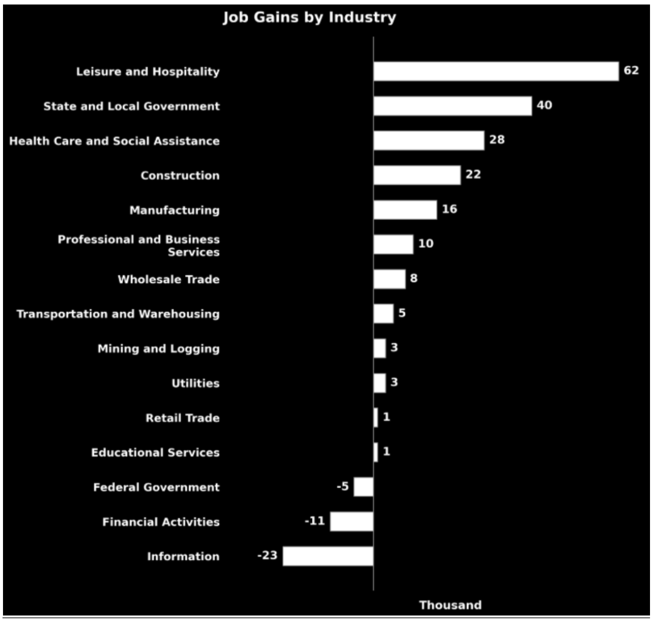


Sources: U.S. Bureau of Labor Statistics, Pew Research Centre

Exhibit 5: U.S. Markets: Dollar, Yields, Equities, and Gold

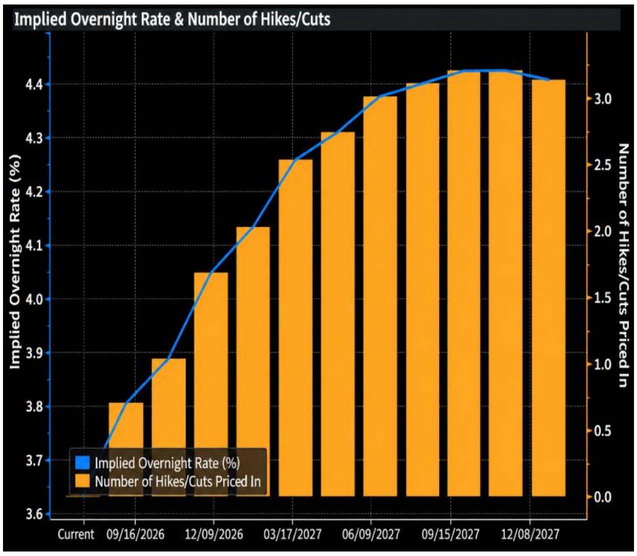
Source: Bloomberg

Exhibit 6: U.S. August's NFP by Industry (+160,000)



Sources: U.S. Bureau of Labor Statistics, Bloomberg

Exhibit 7: Implied Fed Funds Rate and Number of Hikes Priced In (Bloomberg's WIRP)



Source: Bloomberg

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Suwat Sinsadok, Register No. 020799, Globlex Securities Public Company Limited

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RECOMMENDATION STRUCTURE
Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* **-** current price) / current price.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.
* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.