

Arc Commodity

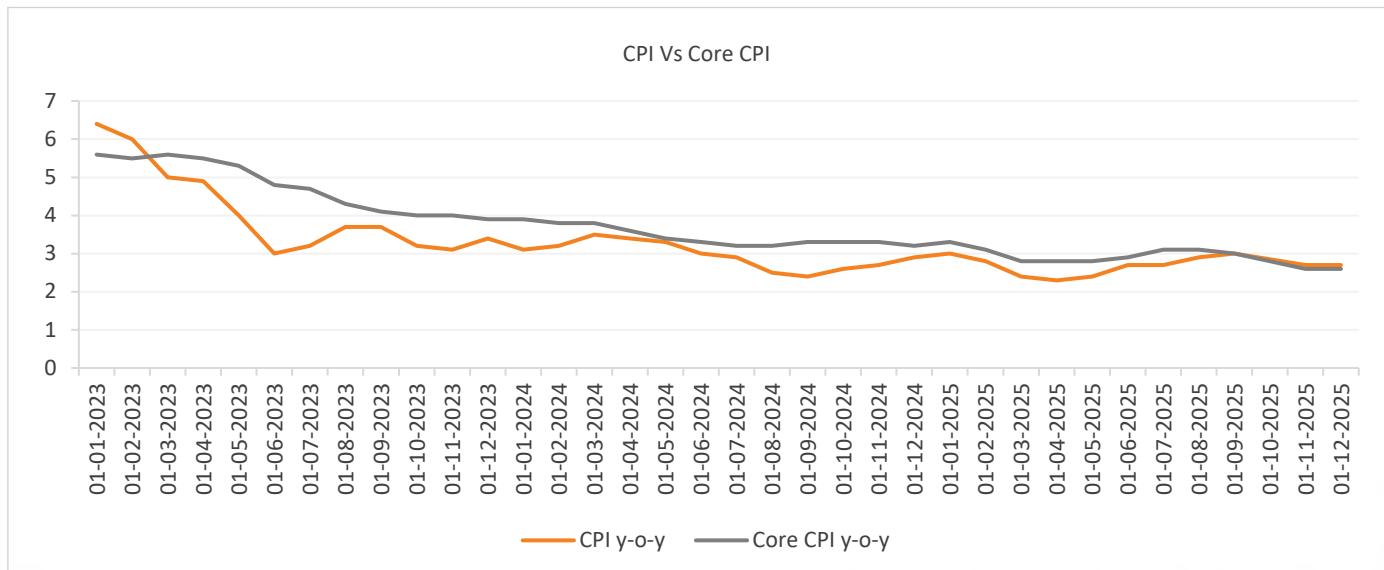
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US December CPI report: Tamer than expected

Summary

- The December US CPI reading was expected to give a better picture of the US consumer inflation, given the downward bias seen in November. Yet, December data was largely cooler-than-expected.
- The November CPI reading was surprisingly low that made economists doubt about whether low inflation could have been due to the US government shutdown-related issues.
- November CPI annual inflation rate was at 2.7% (versus a forecast of 3.1%), while core CPI was even lower at 2.6% (forecast 3%).
- In November CPI report, there were issues around OER (Owner's Equivalent Rent) and data collection that happened in late November at a time when many items were being offered at a discount. The government shutdown that ended in mid-November could have also impacted the readings.
- US Dec. Core CPI rose 2.6% y-o-y; Est. +2.7%
- US Dec. Core CPI Rises 0.2% m-o-m; Est. +0.3%
- US Dec. Consumer Prices Rise 0.3% m-o-m; Est. +0.3%
- US Dec. Consumer Prices Rise 2.7% y-o-y; Est. +2.7%
- Many tariffs exposed items saw price cuts solidifying the case that tariff passthroughs maybe peaking.



Source: Bloomberg; Mirae Asset Sharekhan Research

Analysis

- The US December CPI report turned out to be tamer than expected though it was widely expected that as November CPI report had a downward bias, the December report could be hot due to those adjustments. However, core CPI was cooler than expected on both m-o-m and y-o-y basis, while headline CPI data matched their respective forecasts.
- Since only 11 of 73 forecasters at Bloomberg predicted a 0.2% core monthly reading, the data could be construed as a major downside surprise.

- The Supercore services metric, which strips out housing costs, rose 0.29% on the month, the smallest increase since June (there were no October or November readings). On a y-o-y basis, the increase is 2.74%, up slightly from 2.70% in November but still a relatively tame reading.
- The gauge of insurance for households and tenants soared 8.2% over the year to December, the biggest gain on record.
- Commodities index excluding food, energy and used cars and trucks rose 0.16% as tariff induced rise is still seen.
- Rents for primary residences rose 2.9% over the 12 months to December, the smallest such increase since October 2021.
- The food index rose 0.7% while energy rose 0.3%.
- Shelter prices bounced back with a 0.4% increase, double the 0.2% rise for the two months October/ November. The index was the biggest contributor to the rise, though it did not lead to a faster increase in the core CPI.
- Motor vehicle maintenance and repair costs were lower in the month, down by 1.3%, while vehicle insurance costs were flat.
- Food at home (groceries) monthly price rise of 0.7% is the biggest gain since August 2022.
- Food away from home (restaurants) saw a 0.7% monthly increase, the biggest increase since October 2022.
- Recreation index rose 1.2% in December, the largest one month increase since it index was created in 1993.
- On the other hand, there was a significant 1.1% decrease in prices for used car and trucks while new vehicles were flat.
- Apparel costs rose by 0.6%, possibly due to tariff impact.
- Used car prices and household furnishings held down the core for December as these categories saw declines in prices.

Market reactions:

Commodity/Instrument	Reaction	CMP	Remarks
Gold	Up 0.50%	\$4619	Geopolitical and Fed related developments more important
Silver	Up 1.50%	\$88.31	Strong buying momentum
Copper	Flat	\$6.04/ Pound/\$13200/t	Chinese demand weak
WTI Crude oil	Flat	\$60.50	Supported by Iran issue
Risk Assets	Slightly Up	US equities rise	Well bid
Dollar Index	Eased by 0.1%	98.96	Seen rangebound in near term. Medium-to-long term bearish
2-year US yields	3.54%	Down by 1 bps	Fed concerns key factor
10-Year US yields	4.18%	Down by 1 bps	Fed concerns key factor

Source: Bloomberg; Mirae Asset Sharekhan Research

Upcoming data:

- The producer price index report to be released on January 14 will publish both October and November data together.
- Retail Sales data will also be released on January 14.
- Import and export price indices data will be released on January 15.

Conclusion

- Contrary to wider expectations, December CPI numbers are tamer.
- The report did not move the needle on the Fed rate change expectations in January/March meeting. Markets still largely expect the Fed to cut rates in June.
- As the US's job market stabilized in December but remains weak due to massive downward job revisions continuing, the Fed is likely to remain focused on the job market.
- Tepid CPI inflation report means that further weakness in the job sector will make the Fed more accommodative.
- Overall, CPI report remains positive for commodities in general.



Source: Bloomberg; Mirae Asset Sharekhan Research

Risks

- It may come from rising 2-year yields, though yields could be affected due to other factors like threat to the Fed's independence concerns.
- Overall, US CPI report is positive for commodities. However, we also need to monitor other factors like geopolitical risks, Fed related developments, trade and tariff news, etc.

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