

## US data casts more doubt over Fed hike strategy

Softer inflation and retail sales data means markets will remain sceptical about Fed's plans to hike four times before 2018 ends



Source: Shutterstock

The annual rate of headline inflation is now at its lowest since October last year and will add to market doubts about the Fed's rate hiking strategy. Energy prices were largely to blame, with a 1.6% month-on-month fall reflecting lower gasoline prices resulting from oil prices falls. There was also a fourth consecutive monthly fall in apparel prices, and tobacco, transportation and recreation also declined.

Janet Yellen had been suggesting that inflation was subdued because of "transitory" factors. However, this week's testimony added the caveat that given inflation has been consistently below target for much of this year, "there could be more going on there". Financial markets took this as a signal that the Fed may be wavering on their forecast that interest rates will be hiked by 25bp on four occasions over the next 18 months and today's figures are likely to intensify this debate.

# 1.6%

## Headline CPI (YoY%)

Previously 1.9%

Worse than expected

This came alongside disappointing retail sales data, albeit offset somewhat by a two-tenths percentage point upward revision to May. This will put a small dent in 2Q GDP forecasts, although we still expect growth to come in around the 3% region.

# -0.2%

## Retail sales (MoM%)

Previously -0.1%

Worse than expected

The market is pricing in just one and a half hikes (40bp or so). We still look for three – one more this year along with a formal start to balance sheet reduction with two more hikes in 2018. Our reasoning is that inflation is likely be back above 2% in Q4 while GDP, while GDP has rebounded. With the Fed also citing “easier” financial conditions as a factor that could facilitate higher interest rates and “somewhat rich” asset prices they seem to be broadening out the factors that will help them justify action.

### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person

for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).