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# Weekly Commentary

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## A Rotten Core

Typically, the headline number of the Consumer Price Index gets the most attention—hence the name. August's month-over-month (m/m) increase of 0.1% and year-over-year (y/y) rise of 8.3% were higher than anticipated—though perhaps those expectations were unwarranted. These numbers actually fell from July's annualized increase of 8.5% and June's 9.1%.

But what spooked the markets was that Core CPI leapt 0.6% m/m and 6.3% y/y. Core does not factor in volatile elements in the economy, notably energy and food prices. One of the reasons headline inflation fell is because gas/oil prices slipped in August, not because broader inflation waned. This was confirmed in the Core data, which reflects the "stickier" increases in prices and costs, and therefore are more worrisome if they rise quickly. Its jump in August might even spook the Federal Reserve ahead of its policy-setting meeting in October. It is likely to push the fed funds rate up by 75 basis-points, with some prognosticators anticipating a full percentage-point increase.

The Fed has now doubled the pace of quantitative tightening, its plan to reduce its holdings of Treasury and agency mortgage-backed securities. It is now letting $95 billion of these "roll off" each month, meaning it will not reinvest the proceeds of some of its maturing securities. While that number sounds huge, in the context of trillions of dollars on its balance sheet, it is not. It will take some time before the positive result of increased supply of the securities appears in the liquidity markets.