BEA 東亞銀行

Economic Indicators Analysis **15 July 2026**

Cooling June Inflation Data Should Buy Time for Warsh's Fed

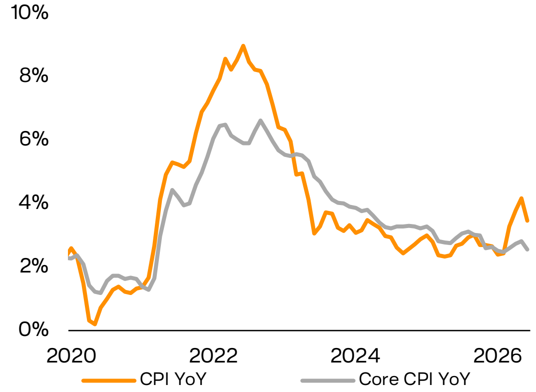
Summary:

- Headline CPI inflation rose just 3.5% YoY in June, down from 4.2% in May.
- The ceasefire reduced uncertainty and led to a decline in energy prices, leading the deceleration in headline inflation. Though reignited tensions cast doubt on whether the trend continues.
- The Fed will likely hold rates steady at the upcoming July meeting, as cooling inflation and a weak recent jobs report provide impetus to remain patient before hiking rates.

The US Consumer Price Index (CPI) report for June 2026 presents a sharp shift from the preceding month's data. In a reversal of May's sharp acceleration, headline inflation in June decelerated significantly to 3.5% year-on-year (YoY), down from 4.2% in May. More strikingly, headline CPI fell by 0.4% month-on-month (MoM), offering a highly encouraging reprieve from inflationary pressures. This marks the first monthly decline in headline prices in over two years, and the largest single-month drop since April 2020. Crucially, core CPI (which excludes volatile food and energy costs) came in flat (0.0% MoM), dragging the annual core inflation rate down to 2.6% YoY from May's 2.9%. The simultaneous cooling of both headline and core metrics suggests a broadening deceleration of price pressures, significantly easing the immediate stagflationary worries that loomed.

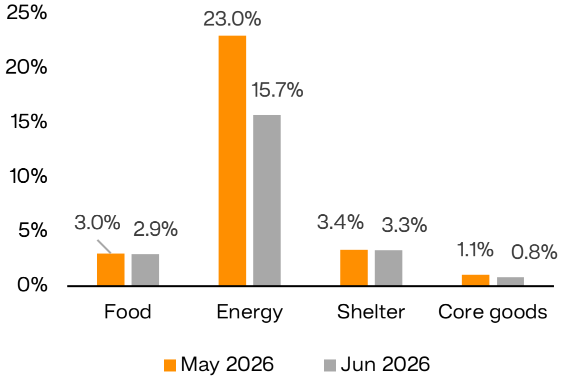
Examining the individual components reveals that the same forces that drove May's spike were also responsible for June's plunge. The energy index, which had surged 3.9% in May, plummeted 5.7% MoM in June, driven by a dramatic 9.7% MoM drop in gasoline prices due to temporary geopolitical reprieves. Under the core umbrella, goods continued to serve as a powerful disinflationary anchor. Notably, used cars and trucks fell 0.2% MoM, while new vehicles remained entirely unchanged. In terms of services, medical care services fell 0.1% MoM, a stark contrast from the 0.5% gain in May. Importantly, the notoriously sticky shelter component continued its slow descent, rising just 3.3% YoY (down from May's 3.4%), with a slower MoM increase of 0.1% compared to May's 0.3% rise.

US CPI Inflation



Source: Bloomberg

US CPI Inflation by Component (YoY)



Source: Bloomberg

However, beneath the surface of this report lies an important caveat, namely that the data is largely backward-looking and may not reflect current conditions. The dramatic drop in energy costs was largely a product of a temporary mid-summer ceasefire that has since collapsed. With the US restarting strikes and reimposing the blockage on Iran, causing crude oil prices to quickly rebound in early July. Consequently, July's upcoming CPI print is unlikely to maintain the current cooling trajectory if tensions persist and a deal is not reached soon. In contrast, the flat core print is far more structurally reassuring. The broader deceleration of core goods and services suggests that underlying domestic demand is normalising rather than overheating, bringing underlying domestic inflation closer in line with the Federal Reserve's (Fed) long-term targets.

For monetary policy, this more positive print buys the Fed valuable time. The Fed's hawkish tone at the June FOMC meeting, together with Warsh's long-standing hawkish stance on inflation, raised expectations that a rate hike could come sooner than previously anticipated. As a result, the perceived odds of a July hike increased in the weeks following the meeting. However, cooling inflation and a weak recent jobs report provide impetus to hold rates steady until the uncertainty surrounding the geopolitical landscape settles. We expect the Fed to hold rates steady at the upcoming July meeting, with the Fed set to maintain its data dependent stance.

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