MUFG

US Desk Strategy | Global Markets Americas

Inflation Update

August 2026 CPI Preview

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MUFG Securities, Inc & MUFG Bank, Ltd.
A member of MUFG, a global financial group

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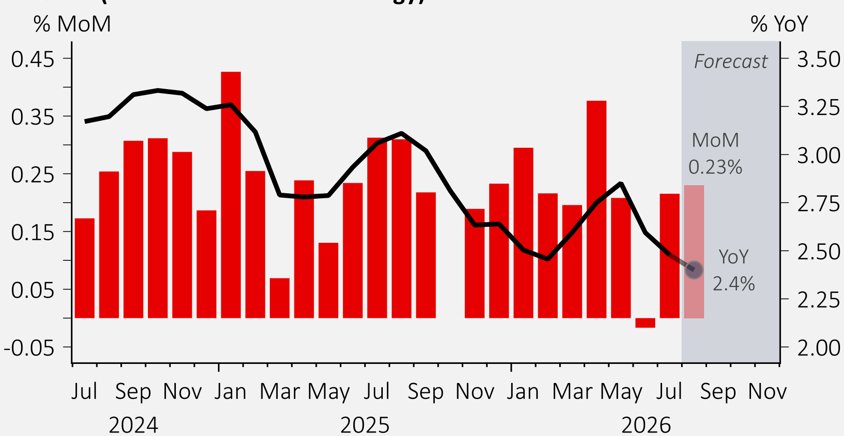
Preview | Moderate inflation in August would reinforce the summer softness

Data Preview & Forecast

- MUFG forecasts August 2026 headline CPI at **0.32% MoM** (3.3% YoY) and core CPI at **0.23% MoM** (2.4% YoY), in line with the median estimate from Bloomberg contributors.
- There is an implied probability of ~50% for core CPI to grow by 0.2% MoM in August, ~30% for 0.3% MoM, and ~20% for 0.1% MoM.
- *What to watch out for:* Core goods inflation returned to positive territory in July, with some of that momentum likely to carry forward into August, though deflation of used auto prices will limit the monthly contribution from goods. For services, growth in college tuition should moderate (following strong growth last month which contributed ~0.01% points to overall CPI), but airline fares inflation is expected to remain elevated amid high oil prices.

Core CPI (All Items Less Food & Energy)



Source: BLS and MUFG US Macro Strategy

Market Thoughts

- *Base-case:* Given the rates sell-off ahead of CPI, it will all depend on the composition of inflation and rounding (within the 0.15-0.24 range). With a middle of road 0.2%, we expect a decent rates rally (4-6bps) as we believe the pre-CPI rate selloff is largely driven by non-US fundamentals (the ECB hike and oil moves of late).
- *Upside risk:* A core reading of 0.3% would keep rates under pressure and push hiking expectations for the Sep FOMC meeting up towards 90%, as it will be hard for the Fed to skip in this scenario. However, the composition of growth will still be relevant.
- *Downside risk:* A 0.1% MoM core reading would ease market expectations of a Fed hike in Sep down closer to a coin-flip, but we expect the Fed to hold in this scenario. We expect a decent rates rally of 7-11 bps (unwinding recent moves) if core CPI comes in this soft.

Conditional FOMC Meeting Probabilities (Current Fed Funds Rate: 3.5-3.75%)

Meeting	Implied FFR	3.5-3.75	3.75-4	4-4.25	4.25-4.5	4.5-4.75
Sep 16, 2026	3.70 %	38.8 %	61.2 %			
Oct 29, 2026	3.79 %	27.6 %	54.8 %	17.6 %		
Dec 9, 2026	3.96 %	11.9 %	39.4 %	38.7 %	10.0 %	
Jan 27, 2027	4.01 %	8.9 %	32.4 %	38.9 %	17.2 %	2.5 %
Mar 17, 2027	4.11 %	5.3 %	22.8 %	36.2 %	26.1 %	8.5 %
Apr 28, 2027	4.17 %	4.4 %	19.8 %	33.9 %	27.8 %	11.5 %
Jun 9, 2027	4.25 %	3.4 %	16.2 %	30.6 %	29.2 %	15.3 %
Jul 28 2027	4.27 %	3.1 %	15.4 %	29.7 %	29.3 %	16.3 %

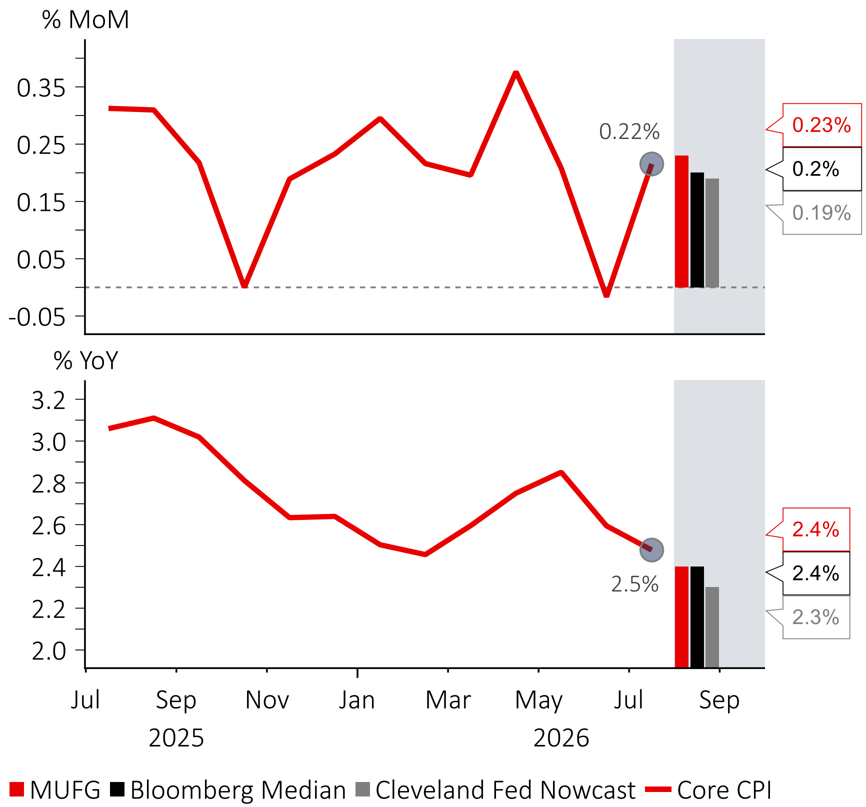
Source: CME FedWatch, Macrobond and MUFG US Macro Strategy

Preview | MUFG forecasts 0.2% MoM core CPI

MUFG forecasts 0.23% MoM and 2.4% YoY for August 2026 core CPI (0.32% MoM and 3.3% YoY for headline CPI)

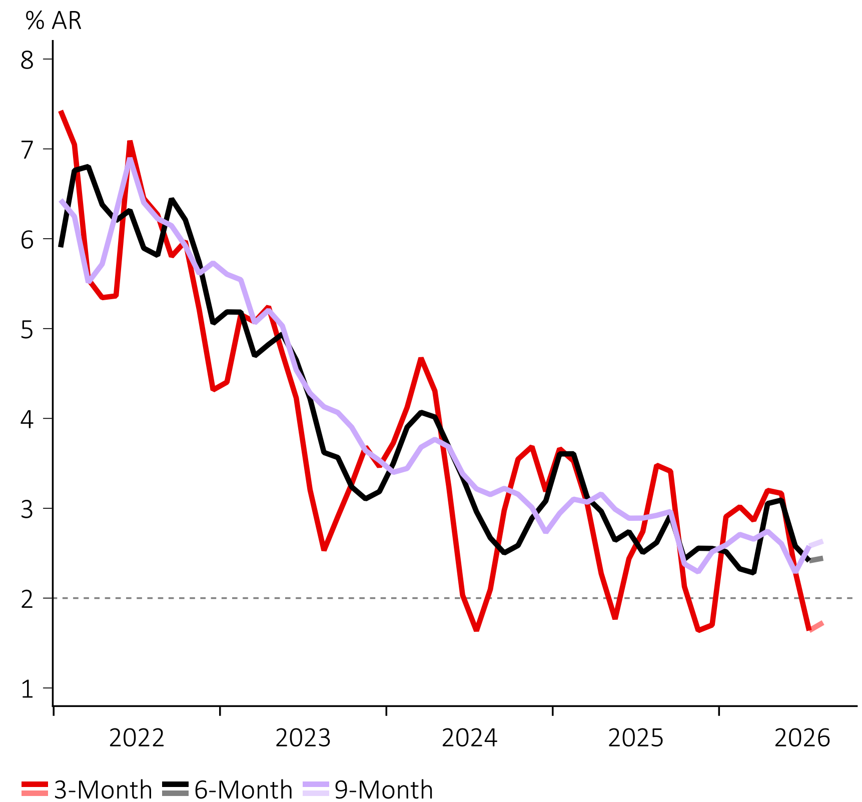
- There is an implied probability of ~50% for core CPI to grow by 0.2% MoM in August, ~30% for 0.3% MoM, and ~20% for 0.1% MoM.
- A 0.23% MoM core CPI reading would result in a 1.7% 3-month annualized growth rate, below the pre-pandemic average and Fed target of 2% (indicating low to moderate inflation momentum).

***MUFG** August 2026 Core CPI Forecast*



Source: BLS and MUFG US Macro Strategy

Core CPI Annualized Growth Rates



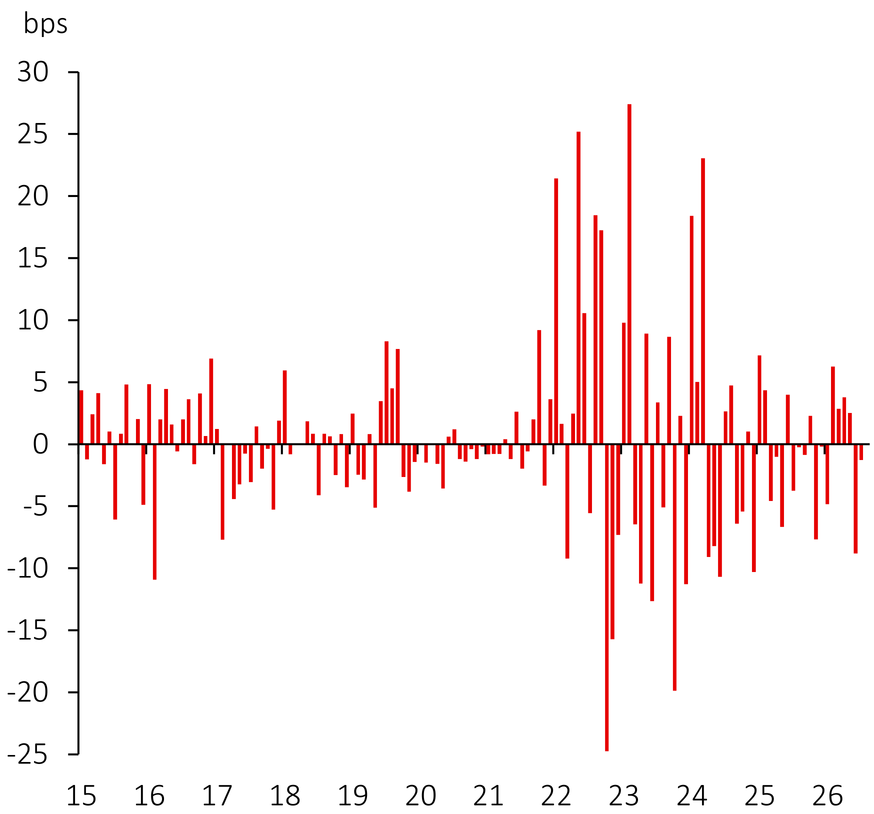
Source: BLS and MUFG US Macro Strategy

Markets | A hot reading clears the path for a hike, and a soft one narrows it

A 0.3% core CPI reading would push Sep hike expectations up towards 90%, while 0.1% would ease them down closer to a coin-flip

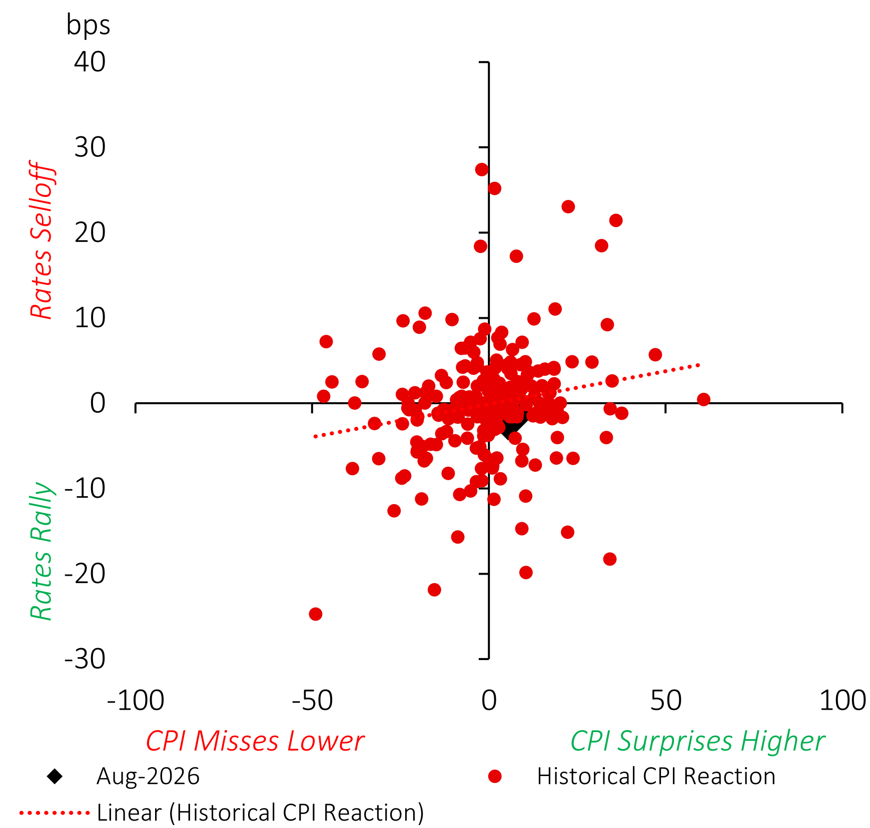
- Given the rates sell-off ahead of the August CPI, it will all depend on the composition of inflation and rounding (within the 0.15-0.24 range). With a middle of road 0.2%, we expect a decent rates rally (4-6bps) as we believe the pre-CPI rate selloff is largely driven by non-US fundamentals (the ECB hike and oil moves of late).

2Y Yield Change on CPI Days



Source: Bloomberg and MUFG US Macro Strategy

2Y Change vs CPI Misses/Surprises Since 2003



Source: Bloomberg and MUFG US Macro Strategy

Markets | Core CPI scenarios and how FOMC members may vote

	0.1% (HOLD)	0.2% (CLOSE CALL)	0.3% (HIKE)
Core Drivers	<u>View</u>: A 0.1% MoM core inflation reading (w/ a benign composition) would reinforce the weakening momentum narrative. As a result, the majority of the FOMC would likely vote to keep rates steady, with the possibility of only 2 dissents.	<u>View</u>: The composition of a 0.2% MoM growth rate would be key, with “super-core” being most relevant. A hot “super-core” would suggest a broadening out of inflation, potentially increasing the number of votes for a hike in September.	<u>View</u>: The FOMC will likely vote for a hike if core CPI grows by 0.3% MoM. In this scenario, Warsh can bring about a unanimous vote in favor for raising the target Federal Funds Rate by 25bps.
Votes for Hike	Hammack Logan 2 / 10 Hike vs No Hike Split	Hammack Logan Kashkari Waller Paulson 5 / 7 Hike vs No Hike Split	Hammack, Barr Logan, Cook Kashkari, Jefferson Waller, Williams Paulson, Powell Bowman, Warsh 12/0 Hike vs No Hike Split
Hiking Probability (MUFG Estimate)	15-35%	45-65%	80-95%

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