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ECONOMIC Department

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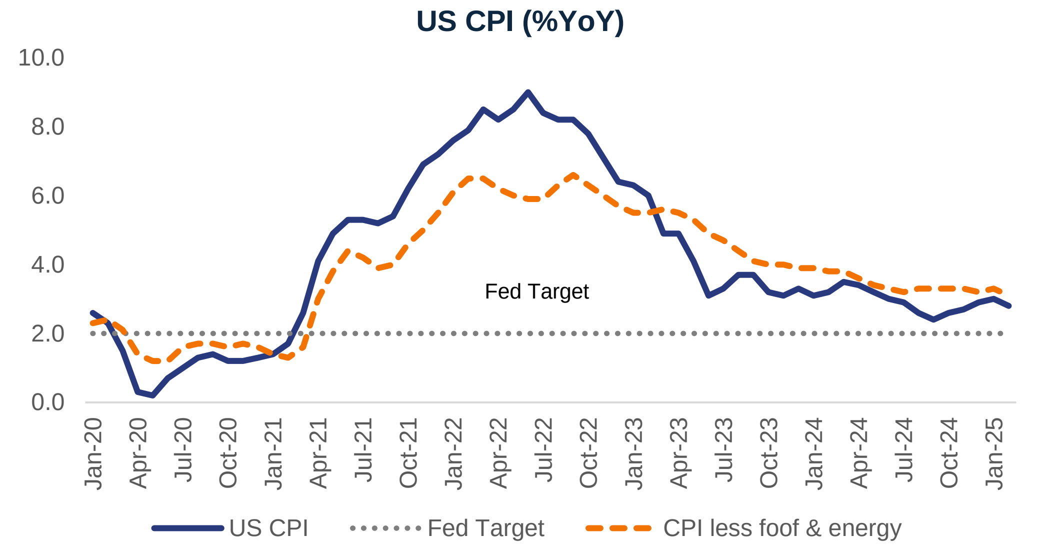
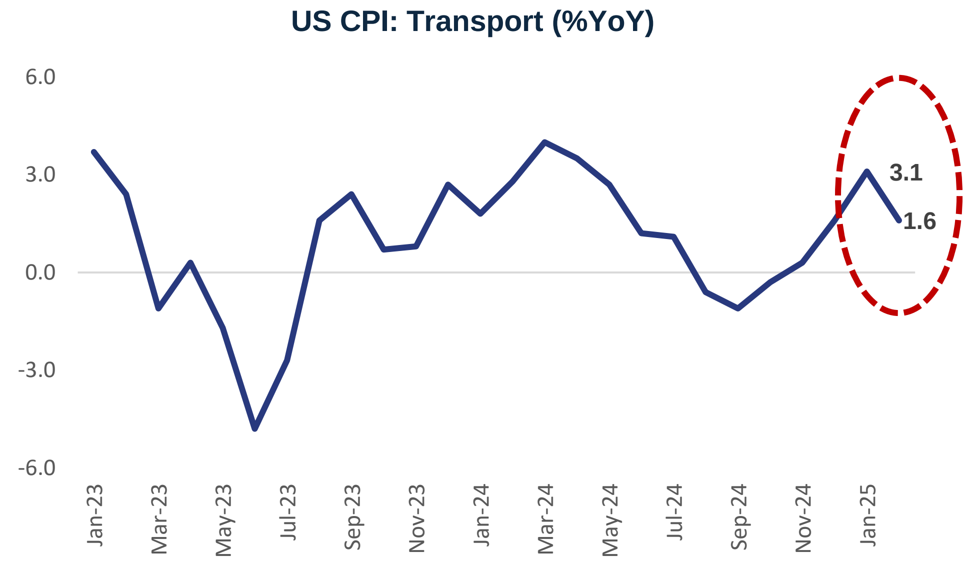
14 MARCH 2025

Cooling Prices, Warmer Markets: CPI & PPI Set the Stage for a Dovish Fed



Sources: CEIC, BMMB Economics



Sources: CEIC, BMMB Economics

In February, US **consumer price inflation cooled notably**. Headline CPI rose just 0.2% MoM (Jan: 0.5% MoM) – the smallest gain since October – bringing the annual inflation rate down to 2.8% (from 3.0% in Jan). Core CPI (ex-food and energy) likewise increased a modest 0.2% MoM and 3.1% YoY, undershooting forecasts and indicating a **loss of momentum in underlying price growth**. Key drivers of this disinflation included falling energy and transport costs and softer goods prices. For instance, gasoline prices dropped 1.0% in February amid cooling global oil demand, and airline fares plunged 4.0% as consumers and businesses cut back on travel. Food inflation also moderated – grocery prices were flat on the month with cheaper produce, though certain categories like eggs saw extreme spikes due to supply shocks. Overall, February's CPI report signaled that broad consumer inflation continues to trend down, especially compared to the price surge seen in January.

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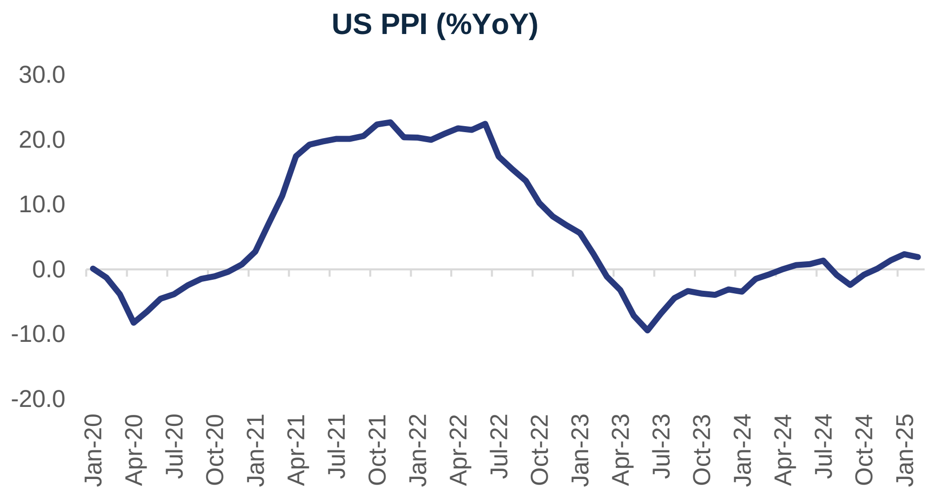
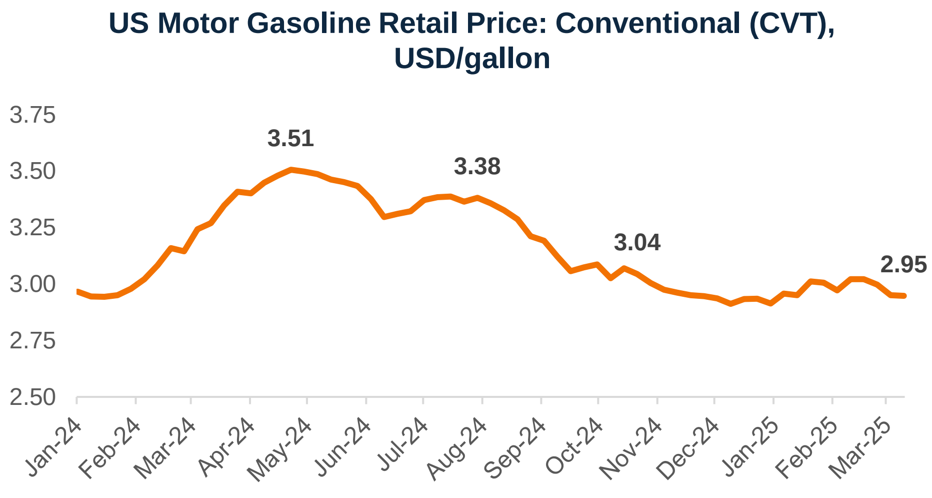
Less Heat in the Pipeline: Softer PPI Reinforces Disinflation Story



Sources: CEIC, BMMB Economics



Sources: CEIC, BMMB Economics

On the producer side, the latest data also showed **elements of cooling**, albeit with some volatility. Headline producer prices rose 1.0% MoM in February (Jan: 1.5%) and 1.9% YoY (Jan: 2.3%), driven largely by some food price shocks. Stripping out food and energy, core PPI was also much tamer – core goods prices edged up a mere +1.0%. indicating that many producers are not broadly raising prices.

The parallel downshift in both consumer (CPI) and producer (PPI) inflation suggests that producers are indeed facing less input-cost pressure, which bodes well for future consumer prices. Easing supply-side bottlenecks and past commodity price declines are filtering through to slower price growth at the factory gate. In turn, this producer cost relief is likely to translate into further moderation in retail prices ahead, barring new shocks. Both indices show **inflation broadly on a disinflationary path**, especially in core goods, indicating that the worst of the price spikes is behind us.

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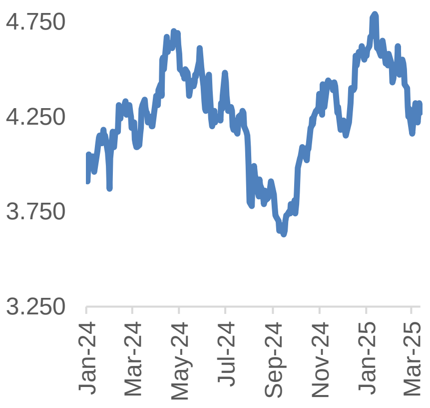
Cooling Inflation Fuels Rate Cut Hopes

S&P 500 Index

Sources: YahooFinance, BMMB Economics

UST 2-year

UST 10-year



Sources: CEIC, BMMB Economics

The markets largely viewed the softer CPI and PPI readings as confirmation that the inflation cooldown is gaining traction. In equity space, US stocks rallied on the cooler February CPI report, with the **S&P 500 jumping over 1% intraday after the release**. Although some of those gains reversed amid other concerns, the inflation news gave a much-needed boost to market sentiment, especially for rate-sensitive and high-growth shares, on hopes that pressure from rising costs is abating. **US Treasury yields initially eased lower** as traders digested the benign inflation readings. The 2-year yield – which closely tracks Fed policy expectations – pulled back as odds of further Fed hikes diminished. The 10-year yield also dipped briefly on the CPI release, reflecting reduced long-term inflation fears, before stabilizing.

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Fed's Easing Path Lends Further Support to USD/MYR

The February CPI/PPI data reinforce expectations that the Fed's next move is likely an **eventual cut in interest rates** – not a hike – assuming inflation continues to cool. Earlier in the year, an upside surprise in January's inflation had jolted policymakers and markets, briefly dimming hopes of rate cuts and even raising the specter of a renewed hike if price pressures didn't relent. However, February's encouraging inflation moderation largely put those fears to rest, restoring confidence that the Fed can stay on a path toward easing. Market pricing now anticipates the Fed will begin cutting rates by mid-2025. That said, the Fed's policy stance is not on autopilot – it remains highly contingent on the inflation outlook, which could be clouded by other factors. One key concern is the Trump's new Tariff, which risk reigniting price pressures later this year. We will closely examine the **upcoming FOMC meeting decision** (18-19 March) and its economic projections.

Implications to Malaysia

The prospect of a cooling US inflation environment and a less hawkish Fed has important spillovers for Asian markets, including Malaysia. A gentler Fed path improves risk sentiment and tends to redirect some capital flows toward emerging markets, lending further support USD/MYR amid narrowing interest rate differentials. Despite potential bouts of volatility due to global policy uncertainties, we reiterate our USD/MYR forecast to end the year at RM4.30.