WS Global CIO Office
14 September 2026

Market Watch

US inflation, payrolls data support rate hike this week

Summary

Event: US core inflation rose 0.3% m/m in August, beating consensus expectations for a 0.2% rise. The inflation report follows a stronger-than-expected jobs report for August. The combination supports a Fed rate hike this week. However, annual core inflation eased to 2.4% y/y, from 2.5%, sustaining the disinflationary trend. Therefore, a Fed rate hike this week is likely to be one-off, not the start of a hiking cycle.

Market reaction: Bond and FX markets were relatively muted, while the S&P500 index jumped 0.9%. The policy rate sensitive US 2-year yield rose 4bps to 4.63% as markets factored in almost 90% chance of rate hike this week. US 10-year and 30-year yields were little changed at 4.97% and 5.35%, respectively. The USD index (DXY) rose 0.1%, staying close to its 200-day moving average.

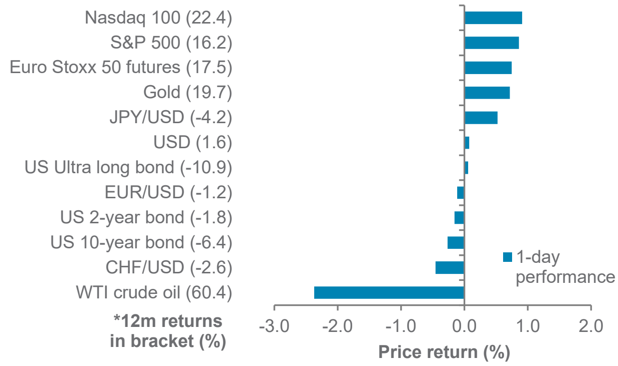
Investment strategy: The latest inflation report for August reinforces the case for a rate hike at this week's Fed policy meeting. As signalled in our previous CIO publications, “Rising Risk of a Fed Rate Hike” and “Inching towards a Fed ‘credibility’ hike”, we now believe there is 90% chance that the Fed will raise the Fed Funds Rate in September.

We view this more as a “credibility” hike by the Fed due to Chair Warsh’s hawkish rhetoric at the Fed’s recent annual Jackson Hole summit. US core consumer inflation, while hotter than expected, continued to move in the right direction on an annualised basis, easing to 2.4% y/y, from 2.5%. Also, US wage growth continues to slow, as reflected in the latest average hourly earnings. As such we do not believe this is the beginning of a cycle of multiple rate hikes by the Fed.

Risks to the view: Headline inflation accelerated to 0.4% m/m and stayed elevated at +3.4% y/y. Energy prices, driven by the Middle East conflict, were a primary contributor, with oil prices having surged in the days preceding the print. The producer inflation report released last week also showed producer prices rising 0.4% m/m, the most since May, and 5.4% y/y, further reinforcing the inflationary backdrop.

US stocks rose, while bond yields and the USD were little changed, after a slightly hotter-than-expected inflation report cemented the chance of a Fed rate hike

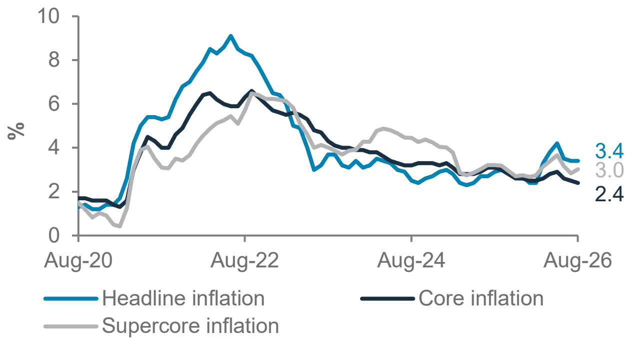
Asset performance: 10-Sep close to 11-Sep close



Source: Bloomberg, Standard Chartered

US core inflation continued to ease in August, despite a m/m acceleration. This argues for one rate hike, not the start of a multiple rate hiking cycle

US headline, core and supercore* inflation



Source: Bloomberg, Standard Chartered;*core services, ex-housing

Moreover, the unexpected rise in the so-called supercore (core services less housing) inflation, to 0.5% m/m and 3.0% y/y would support the hawks in the Fed in their view that there is increasing risk higher energy prices are spilling over to service sector prices. We need to watch closely the latest acceleration in core services inflation as there is a risk that price pressures may be broadening beyond the energy sector. If oil prices stay above USD 100/bbl for a prolonged period, the Fed may be forced to hike multiple times to prevent a de-anchoring of inflation expectations.

Fed policy implications

The Fed enters its 15-16 September policy meeting with the committee visibly divided (the Fed voted 9-3 in July to hold rates), though the latest US non-farm payrolls and CPI prints have tilted the balance toward a hike.

Several key dynamics are in play: i) Chairman Warsh faces intensifying pressure to raise rates following the print, with the report bolstering the argument that underlying inflation remains sticky; ii) Governor Waller had explicitly stated his September decision would be "heavily influenced" by the August inflation data and had signalled openness to a hike if inflation did not show continued progress toward the 2% goal. He also cautioned he did not want to "raise rates into disinflation"; iii) Governor Barr said the Fed should raise rates if inflation is not moderating, citing PCE inflation holding at 3.7% y/y in July, well above the 2% target; and iv) New York Fed President Williams had taken a more measured tone prior to the print, noting inflation was continuing to trend down and that tariff effects were moving into the rearview mirror.

A notable political dimension: President Trump publicly demanded the Fed lower rates following the August jobs report, intensifying the political pressure on the institution.

Bottom Line

The August inflation print, particularly the above-consensus core reading, which follows the much stronger-than-expected payrolls data, effectively seals expectations for a 25bps rate hike at the 15-16 September Fed meeting. The data did not provide the dovish cover needed for the more cautious members of the committee to hold, and Chairman Warsh faces a politically charged but data-supported case for action.

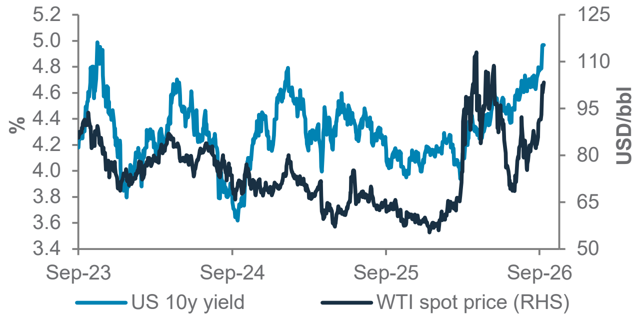
The more consequential question for markets is now the Fed press conference: whether Warsh signals this as a one-and-done move or maintains a tightening bias given inflation still running above the 2% target. Should the Fed hike this week and sound hawkish, it would likely be USD bullish and gold bearish in the near term.

— Jonathan Liang, *CIO for Fixed Income and FX*

Rajat Bhattacharya, *Senior Investment Strategist*

US bond yields have been primarily driven lately by a surge in crude oil prices

US 10-year government bond yield; WTI crude oil price



Source: Bloomberg, Standard Chartered

US headline inflation rose due to higher energy prices; core inflation beat expectations driven by a pickup in supercore inflation

US inflation for August; m/m breakdown

Indicator (m/m)	Weight	Estimated	Actual	Prior
Headline inflation	100%	0.40%	0.40%	0.10%
Core inflation	79%	0.20%	0.30%	0.20%
Food	13.5%		0.10%	0.10%
Energy	7.5%		2.10%	-1.50%
Core goods inflation	19%		0.10%	0.20%
Core services inflation	60%		0.30%	0.20%
Shelter inflation	35%		0.30%	0.10%
Core services less housing (Supercore)			0.50%	0.20%

Source: Bloomberg, Standard Chartered

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