

US Inflation Report

August 2026



Summary

- June and July's cooling was a mirage, with the softness driven almost entirely by World Cup prices unwinding rather than any easing in underlying inflation. That one-off help is now spent, so the next inflation print will be harder to bring down.
- Pipeline costs continue building, with the prices businesses pay for imported goods rising every single month this year and Chinese imports at their most expensive since 2022. July's softer PPI reading was a sharp reversal in energy, not a broad easing.
- The CRY commodity index has hit an all-time high of 396.78, and the rises are concentrated in the everyday essentials households feel most – food, fuel and heating, just as winter arrives.
- Supply and demand for workers is still roughly balanced at 1.04 vacancies per unemployed worker, but private-sector hiring has stalled and pay growth is slowing. Slower wages help pull inflation down – but they also squeeze incomes and, with them, spending.
- Wheat, corn and fertiliser prices have all surged. Whilst food inflation is still soft, higher input costs will begin to feed through to the shelves, making grocery inflation a clear upside risk.
- Fed Funds Futures now price in over a 50% chance of a hike in September, with 50bps of hikes priced in by March 2027 following a PCE beat and Warsh's hawkish tone at Jackson Hole.

US Inflation Watch presents more than twenty charts comprising key inflation indicators grouped into different categories, including consumer and producer price inflation, commodity prices, wage inflation, inflation expectations and monetary indicators.

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The Importance of Inflation

Inflation is the most critical indicator when measuring real wealth, as it determines what wealth can buy, i.e. purchasing power. If 'nominal' wealth doubles over 25 years, but prices also double, there is no net gain in 'real' wealth. It only takes an annual inflation rate of 2.8% to double prices over 25 years.

About Altana Wealth

Altana Wealth is a specialist fund manager regulated in the UK and Monaco. It manages over \$600m across Credit, Special Situations, Digital Assets, Multi-Manager, and Social Impact. It focuses on generating alpha from innovative, niche strategies that are uncorrelated with other asset classes. These niche strategies are often less crowded and overlooked by large managers, as capacity is generally constrained. Altana is a meaningful co-investor in its funds, aligning its interests with those of investors.

Lee Robinson established Altana in 2010 as his co-investment vehicle. Today, the Altana team comprises thirty investment professionals in London and Monaco. It has built best-in-class infrastructure for operations, investor relations, and fund accounting alongside regulated service providers.

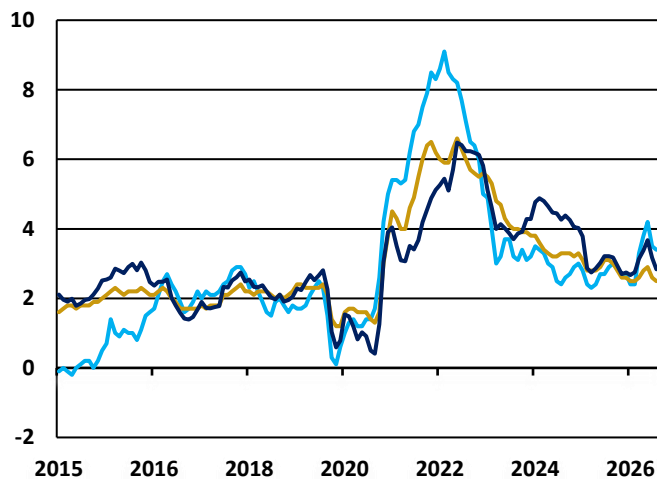
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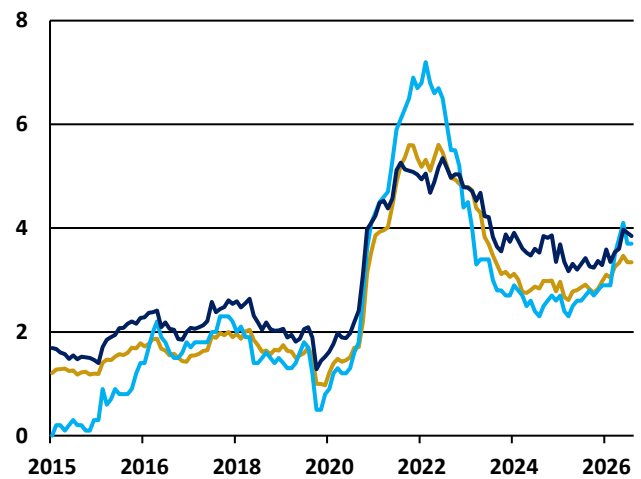


Consumer Prices-CPI (% y/y)



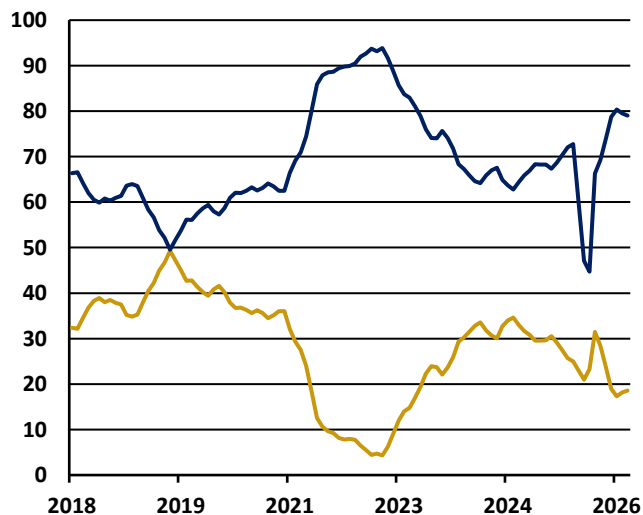
— Total CPI
— Core CPI
— Core CPI Services (ex-housing), supercore

Consumer Prices-PCE (% y/y)



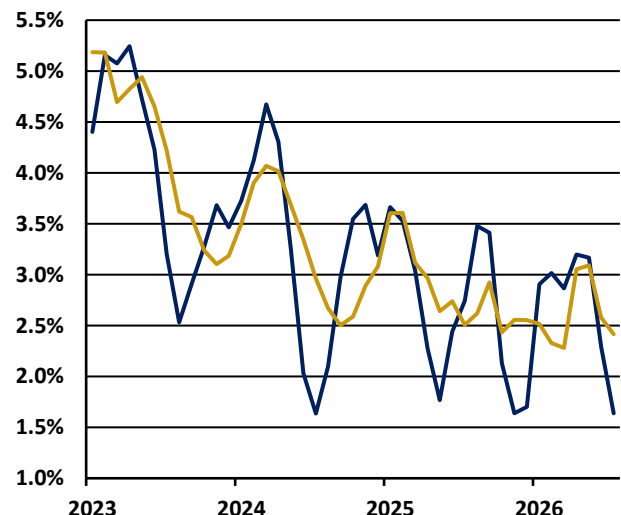
— Total PCE
— Core PCE
— Core PCE Services (ex-housing), supercore

CPI Diffusion



— % of items over 2%
— % of items under 2%

Annualized CPI Growth



— 3m annualised
— 6m annualised

What is this data?

The diffusion graph shows the % of items in the CPI basket with inflation above and below 2%. When the graphs converge, inflation breadth is narrowing, and vice versa when they diverge. The annualised CPI growth graph takes the monthly core CPI data and annualises it on a three- and six-month basis. This data makes it easier to compare different time periods and gauge short-and-medium term momentum.

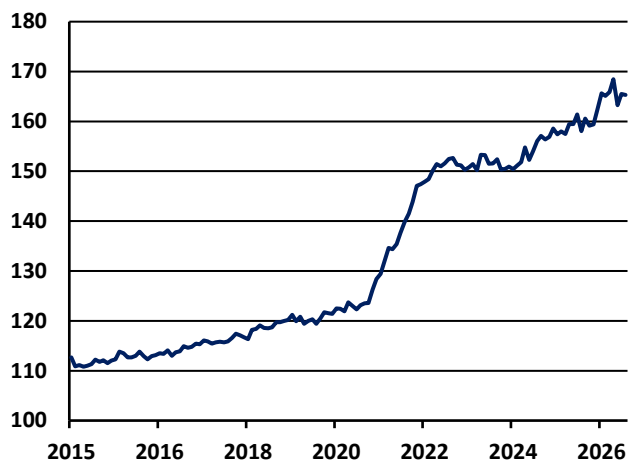
Current status: Inflation statistics over the past two months have been encouraging, showing signs of cooling as headline CPI rose just 0.1% m/m in July whilst core CPI increased 0.2%. Nevertheless, inflation remains too high, and it is unclear whether it is on a sustainable path back to the Fed's 2% target. This is evident in supercore CPI, which has remained elevated at 2.8% due to inflation in medical care services and public transportation. Moreover, a significant portion of the CPI deceleration can be attributed to the reversal of World Cup driven inflation categories such as lodging, airfares and food away from home. These had been artificially elevated during the tournament and have flattered June and July readings in a way that is unlikely to persist into Q3 data. Concurrently, prices for computers and peripheral equipment saw a 3.5% increase and televisions & other video equipment increased 1.7% and 2.1% respectively. Here, rising costs tied to the AI buildout can be seen spilling over into goods that are an essential part of a household's consumption basket. We can also see tariff-related inflation in the mix – with higher prices on motor vehicle parts, reading materials and apparel. Therefore, with the next CPI print set to capture a period free of World Cup distortion, the underlying inflation trend will be considerably harder to read down. Similarly, headline CPI has been suppressed by a combination of energy-related deflation and weaker grocery prices. Considering this, benign headline inflation readings are unlikely to continue, as energy prices remain elevated and prices of agricultural commodities move higher.

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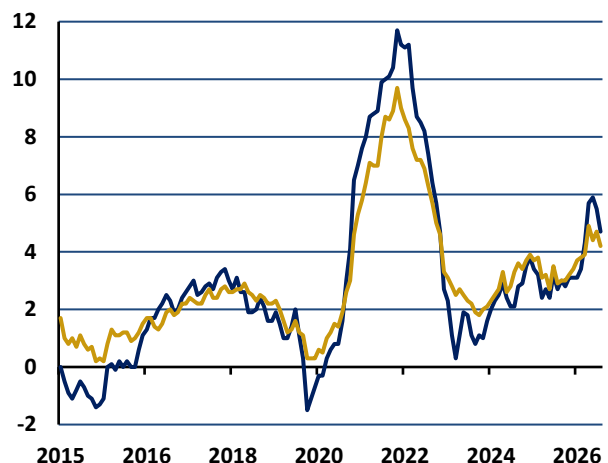


Producer Prices (Index)



— PPI Trade Services
(the margins of retailers & wholesalers)

Producer Prices (% y/y)



— PPI final demand
— Core PPI final demand (ex-food and energy)

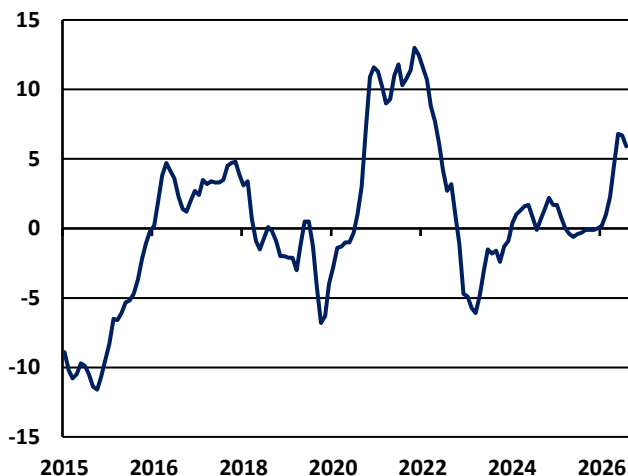
Current status: Final Demand PPI tallied 4.7% y/y in July, falling 1.2% from May's elevated readings. This deceleration was driven primarily by a sharp reversal in energy prices, with readings of -6.5% in June and -3.1% in July. Construction is an outlier to watch, with July recording the largest monthly move in 2026. With the US construction market projected to reach \$1.27 trillion in 2026 and data centre demand continuing to outpace physical constraints, construction is one of the few PPI sub-components where inflation is driven by structural factors. Therefore, with AI spending projected to increase 60% YoY and likely to continue growing, inflationary pressure from construction is unlikely to moderate, with the Federal Reserve of St. Louis estimating AI-related spending to keep US inflation at least 40bps higher for several years. Turning to trade services, the PPI Final Demand Trade Services index (left graph) differs slightly from overall PPI, measuring the margins of wholesalers, not the actual price of goods. The index fell in July, suggesting businesses are absorbing some cost pressures rather than passing them fully to consumers. Whilst this is a disinflationary signal for CPI, a narrowing margin cannot be maintained over the long run. This is especially true if the stalemate in the Middle East persists – causing energy prices to climb and forcing businesses to pass on higher costs to an already financially strained consumer. ISM respondents reflect the points above, describing a supply chain that is “going through another crisis even bigger and more complicated than Covid-19” and attributing this crisis to “AI infrastructure and uncertainties in the global market.” Therefore, in examining current market conditions, we can see why rate expectations have shifted in a hawkish direction.

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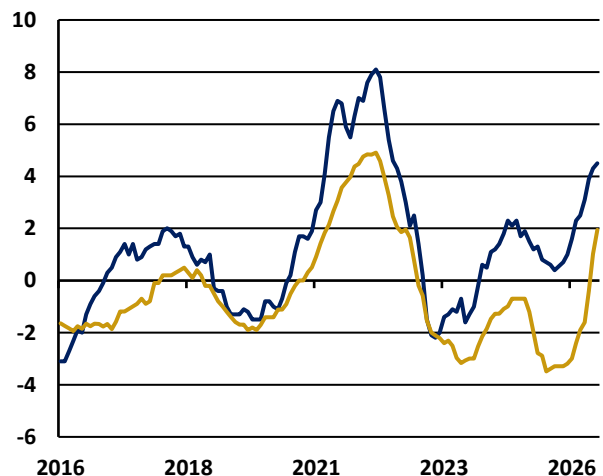


Import Prices (% y/y)



— Import prices

Import Prices – Core and China (% y/y)



— Core import prices (ex-fuels)

— Import prices of Chinese goods

What is this data?

Producer price indices refer only to prices set by domestic producers; therefore, import prices are also monitored to gauge price pressures entering the system from abroad.

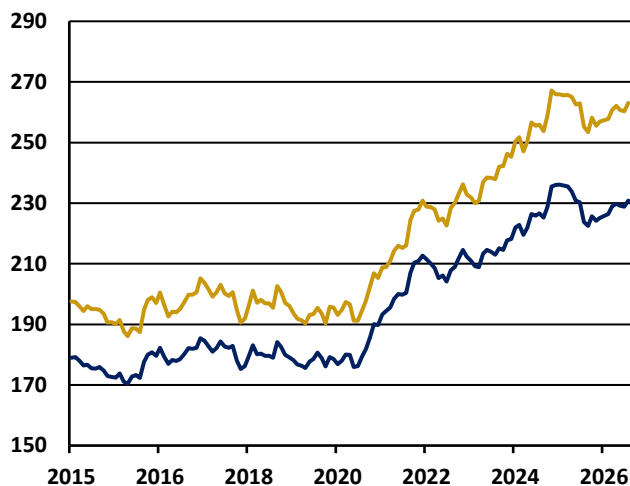
Current status: After peaking at 6.8% YoY in May, the June and July pullback of import prices has been primarily energy-driven, consistent with the PPI and CPI patterns discussed above. However, core import prices are still accelerating, with the ex-petroleum measure rising every month in 2026 – from 1% in January to 4.5% in July. This shows import price pressures building independently of the US-Iran energy shock – reflecting a combination of tariffs, higher freight rates and rising manufacturing costs embedding themselves in non-energy goods' prices. This in turn plays a vital role in forecasting the movement of PPI and CPI in the months ahead, making the divergence between headline and core import prices a key story. Moreover, the China-specific import index shows a steep, accelerating rise since the May "peak" – suggesting Chinese exporters are continuing to pass on higher costs rather than absorb them. Already at their highest level since 2022, import prices for Chinese goods remain a key upside risk to inflation, with price growth decelerating only if US-China trade tensions see little to no escalation. Therefore, the continued rise in ex-petroleum import prices suggests that core CPI goods inflation is likely to remain sticky into Q4 2026, even if headline numbers continue to fall as oil prices moderate. This makes core import prices a key indicator of the trajectory of CPI, PPI and PCE over the coming months.

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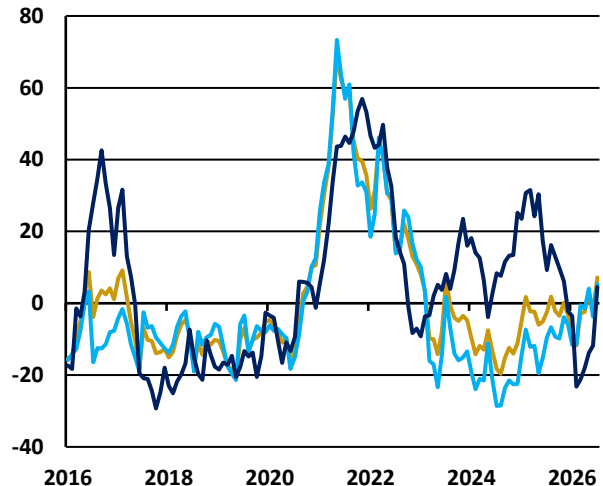


Agricultural Commodities (index)



— Foods
— Foods, Feeds & Beverages

Agro-Commodities Subindex (%y/y)



— Grains (cereal crops and oilseeds e.g. soybeans)
— Broad Agro Basket
— Softs (tropical or semi-tropical crops e.g. sugar)

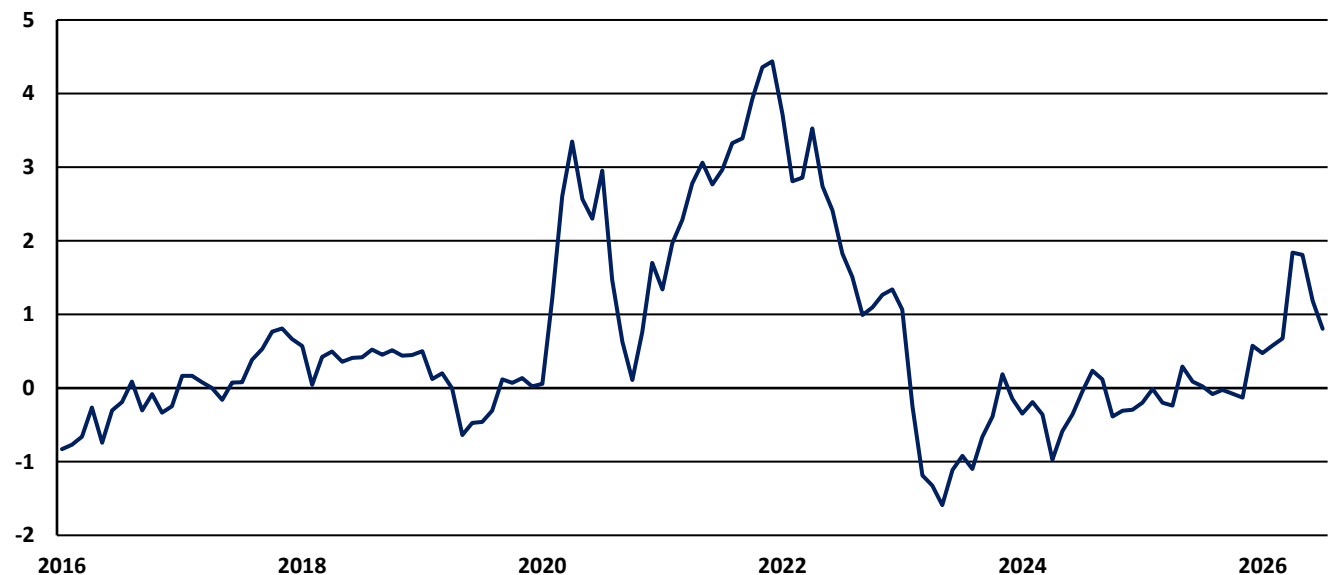
Current status: After spending most of H2 2025 and early 2026 in negative YoY territory, we are witnessing a decisive regime shift in agricultural commodity markets, with every tracked commodity bar coffee now positive YoY. Grains are leading the move, with Wheat and Corn up 28.8% and 16.9% YoY, respectively, as record-low US planted acreage, extreme weather and geopolitical supply disruptions push prices higher. Russia and Ukraine control ~27% of global wheat exports, and the recent escalation has seen Ukraine hit all three grain terminals in the port of Novorossiysk, which handle more than 40% of Russia's grain exports. Russia has increasingly targeted Ukrainian ports on the Black Sea, sinking several ships bound for Odesa, the largest port. As a result, both countries' agricultural exports risk being significantly curtailed, with dangerous spillover effects far beyond Europe. The war in the Middle East is also having an impact, with fertiliser costs expected to increase by approximately 13-15% YoY in 2026 as Urea prices surged 35% in one month and anhydrous ammonia, the most powerful nitrogen fertiliser, surpassed \$1,000/ton. Looking at soybeans, strong Chinese demand and biofuel-driven soybean oil consumption have kept prices rising, with current readings showing a 17% YoY gain. Similarly, softs appear to be recovering from extreme dislocations, with cotton up 30% YoY and sugar moving into positive territory after a 37% YoY trough in late 2025. Consistent with the typical lag between spot commodity moves and import price data, these sharp reversals are now showing in the index (left graph), with both lines turning positive YoY after months in negative territory. This trend is likely to continue, as strong demand and stubborn supply-side shocks suggest the current trend has further room to run. Moreover, with current CPI data showing soft food inflation, the trajectory of agricultural commodity prices will be a key indicator of future inflationary expectations – with the Food Institute warning higher prices will “eventually make their way to the consumer.”

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Global Supply Chain Pressure Index



— GSCPI

What is this data?

The GSCPI integrates several commonly used metrics to provide a comprehensive summary of potential supply chain disruptions. For example, global transportation costs are measured by using data from the Baltic Dry Index and Harper Index, airfreight costs from the U.S. Bureau of Labor Statistics and supply chain-related components from PMI surveys.

Current status: The GSCPI index has now declined for three consecutive months. It is 0.8 standard deviations above its historical mean and down from a cycle peak of 1.84 in April 2026. This suggests the most acute phase of the 2026 supply chain shock has passed, with rerouting adaptations and demand adjustments partially absorbing the shock. Nevertheless, conditions remain meaningfully above the near-zero readings seen through most of 2023–2025, and the US–Iran conflict is expected to continue disrupting flows in the Strait of Hormuz. This is reflected in the Drewry World Container Index, which surged from \$1,899 in late February to \$4,166 by June 25, a 119% increase in roughly four months. Whilst freight rates have begun easing, some of the largest shippers continue to signal elevated transport costs. Importantly, GSCPI also draws on manufacturing surveys (PMI), indicating that another distinct driver of elevated readings is the semiconductor supply chain. Here, the growing global chip shortage is compounding earlier memory supply constraints and is leading to a build-up in demand. Reports suggest China’s AI hardware suppliers are facing capacity bottlenecks that are unlikely to ease in 2026. Therefore, GSCPI’s current trajectory shows transport and logistics costs declining from April peaks, but they are likely to remain elevated through H2 2026.

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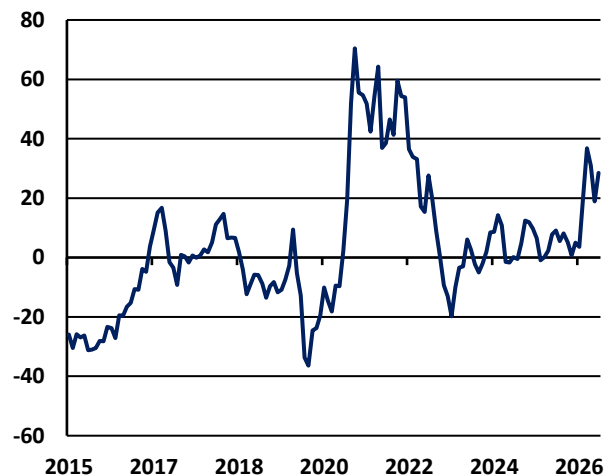
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CRY Commodity Price Index



CRY Commodity Prices (% y/y)



What is this data?

The CRY Index (also known as CRB) is a basket of commodity prices—a timelier indicator of the Crude PPI. These commodities are grouped into four categories, with different weightings: Energy (39%), Agriculture (41%), Precious Metals (7%), and Base/Industrial Metals (13%).

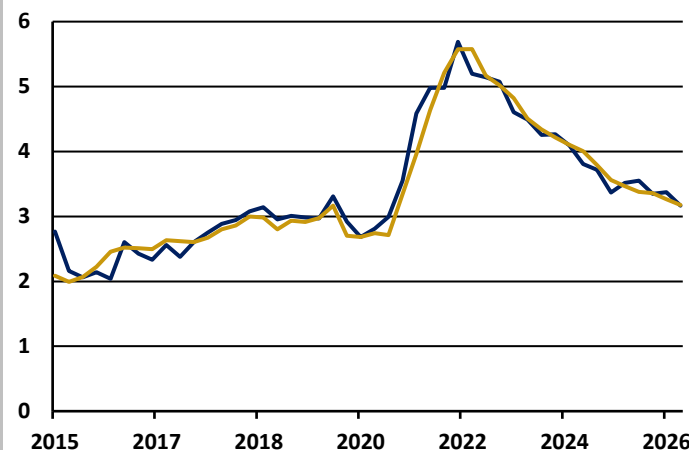
Current status: The CRY index stands at 396.78, up 31% YoY and at a record high, surpassing the previous peak of 395.11 in April 2026. Energy is the primary driver of this surge, with Heating Oil and RBOB gasoline up 97% and 51% YoY, respectively. Crude has the largest weighting in the index and is up 33% YoY. This is worrying, as the largest price increases are in areas that affect consumers most, with heating oil and gasoline representing essential goods – especially as we head into autumn and winter. Moreover, higher gasoline prices negatively impact producers, as evidenced by trucking spot rates – a key supply chain indicator that is expected to rise 17% YoY in 2026. This creates potential for an inflationary spiral, in which higher prices prompt workers to bid up their wages, in turn increasing business costs, forcing them to hike prices again and creating a vicious cycle that accelerates inflation. On the other hand, Silver and Copper increased 62% and 43% YoY, respectively, largely due to their use in manufacturing key electronic components of the AI buildout. Meanwhile, Gold maintained its reputation as a risk-off asset, climbing as the Hormuz deadlock remains unresolved, US debt crosses \$40tn, and the PBOC continues accumulating – with China's gold imports reaching a record 173 tonnes in June.

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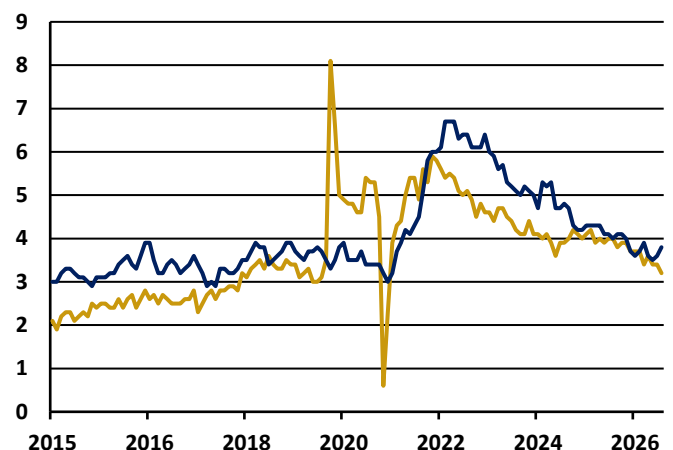


Employment Cost Indices (% y/y)



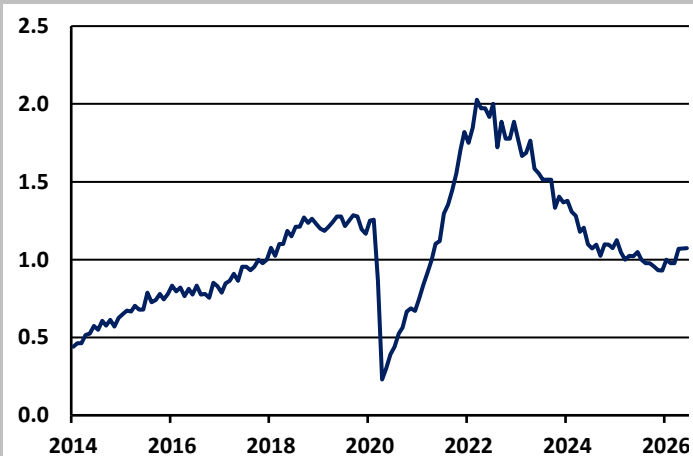
— Wage & Salaries (private sector)
— Wage & Salaries-ex incentives (private sector)

Hourly Earnings



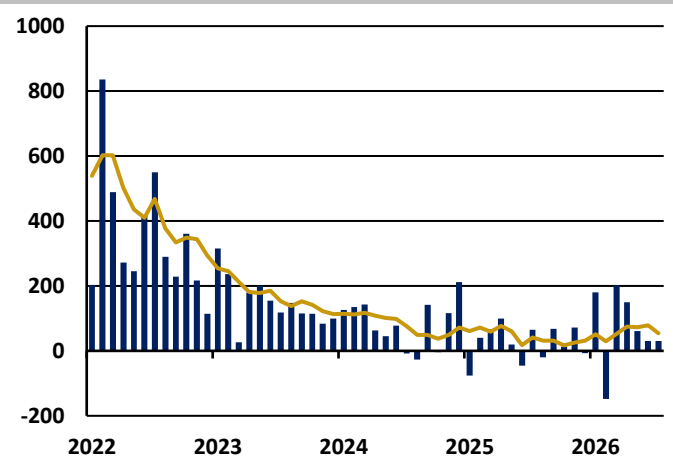
— Average Hourly Earnings % y/y (private sector)
— Atlanta Fed Wage Growth (three-month MA)

New Jobs per unemployed person



— Job Opening Rate/ UE rate

NFP 6 month moving average



— 6 month moving average
— NFP monthly change (private)

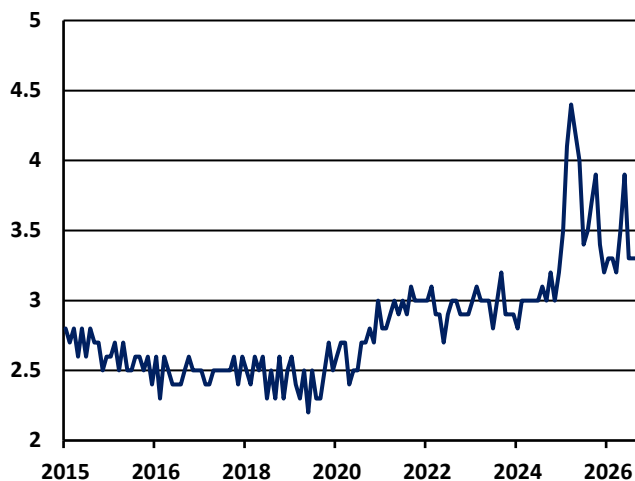
Current status: Payroll growth is slowing, with private NFP stalling at 30,000, a dramatic deceleration from the 202,000 and 150,000 gains seen in early 2026. A simultaneous decline in the unemployment rate indicates a shrinking labour supply – largely due to Trump’s immigration crackdown and an ageing workforce. Nevertheless, the labour market is in balance, with the job opening-to-unemployment ratio close to parity at 1.04x. That said, compensation data shows a decline in workers’ bargaining power, with average hourly earnings growth decelerating from 3.7% in February to 3.2% YoY in July and the ECI continuing to trend downwards, now at 3.16% YoY. Overall, hiring stalling, slack re-emerging and wage pressures fading are disinflationary, but can threaten consumer income growth and therefore their demand for goods and services.

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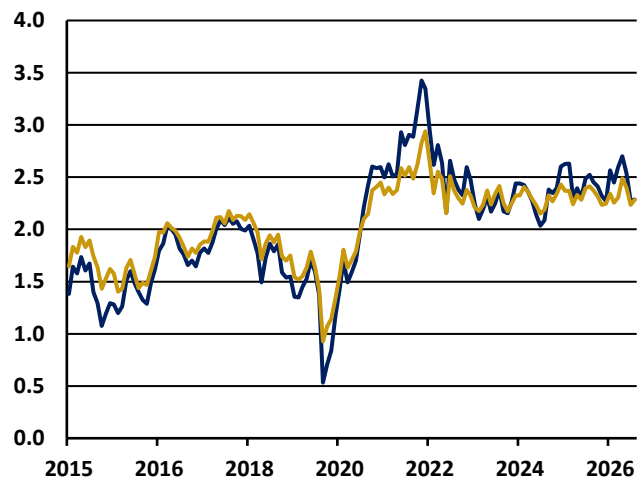


Consumer inflation Expectations (% y/y)



— Univ. of Michigan Survey of Consumer expectations for CPI over the next 5-10 years

Market inflation Expectations (% y/y)



— US 10yr Breakeven Inflation Rate (10yr Treasury yield minus 10yr TIPS yield)
— US 5yr Breakeven Inflation Rate (5yr Treasury yield minus 5yr TIPS yield)

What is this data?

The public (as indicated in the Michigan survey) and the financial market (as reflected in the 10-year/5-year breakeven inflation rates) have significant inflation expectations. Higher consumer expectations of inflation may lead to higher wage demands. If market expectations of inflation are rising or falling, this may prompt a response from policymakers.

Current status: Inflationary expectations have retreated from their May peaks but remain meaningfully above the Fed's 2% target. Moreover, there is a 100bp divergence between what bond markets price and what households anticipate. TIPS break evens sit at ~2.33%, which is significantly below both realised inflation readings (PCE 3.7%, CPI 3.4%), and the data suggest the bond market is pricing a meaningful disinflation path over the medium term. Additionally, the convergence between 5Y and 10Y TIPS suggests the market sees little difference between near- and long-term inflation risk. This contrasts with the survey data, which imply that longer-run expectations will remain stickier. Therefore, uncertainty remains in the markets, as elevated consumer CPI expectations and the recent headline PCE beat suggest that bond markets may be slightly optimistic. Looking ahead, the next PPI and CPI prints are key events for the FED as it attempts to tame sticky consumer expectations and bring readings closer to target.

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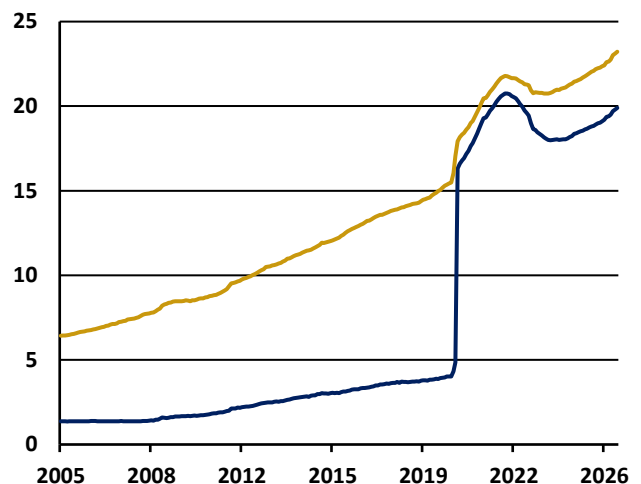


Monetary Base



— Monetary Base (level outstanding \$bn)

M1 & M2

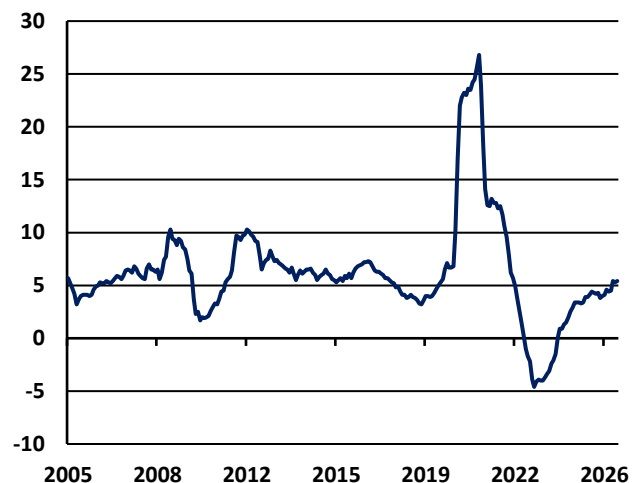


— M1 (level outstanding \$tn)
— M2 (level outstanding \$tn)

M2 Velocity



M2 (% y/y)



Monetary base = M0 (or notes & coins in circulation) + notes & coins held by banks and the central bank + bank reserves held by the banking system at the central bank. **Note:** the last two items are *not in circulation*

M1 = M0 + demand deposits + other checkable deposits (inc savings deposits previously in M2 – recently revised)

M2 = M1 + time deposits < \$100k + retail money funds.

M2 Velocity = Nominal GDP/M2 shows how often the money stock is used for spending on goods and services. It is inversely related to the 'demand for money', i.e., holding money rather than exchanging it for goods and services.

Current status: The indices show a widening divergence between the monetary base and the money supply, with the base shrinking 2.9% YoY whilst M1 and M2 have grown 5.5% and 5.1% respectively. M2 velocity is stable but at risk of rising as M1 grows faster than M2. The outlook seems more inflationary than not. This is reinforced by the Treasury's ongoing buyback programme, which is injecting further liquidity into the economy.

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US Reserves at Federal Reserve Banks



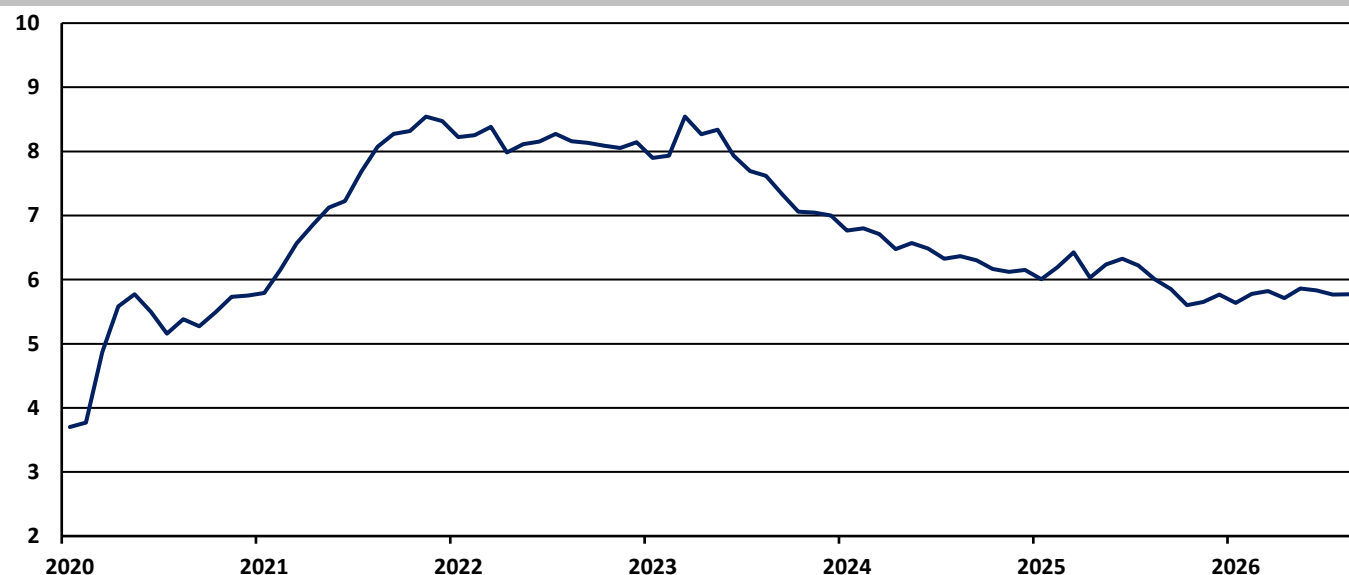
— Reserve balances at Fed banks (\$tn)

Treasury General Account (TGA)



— Treasury General Account (balance in \$bn)

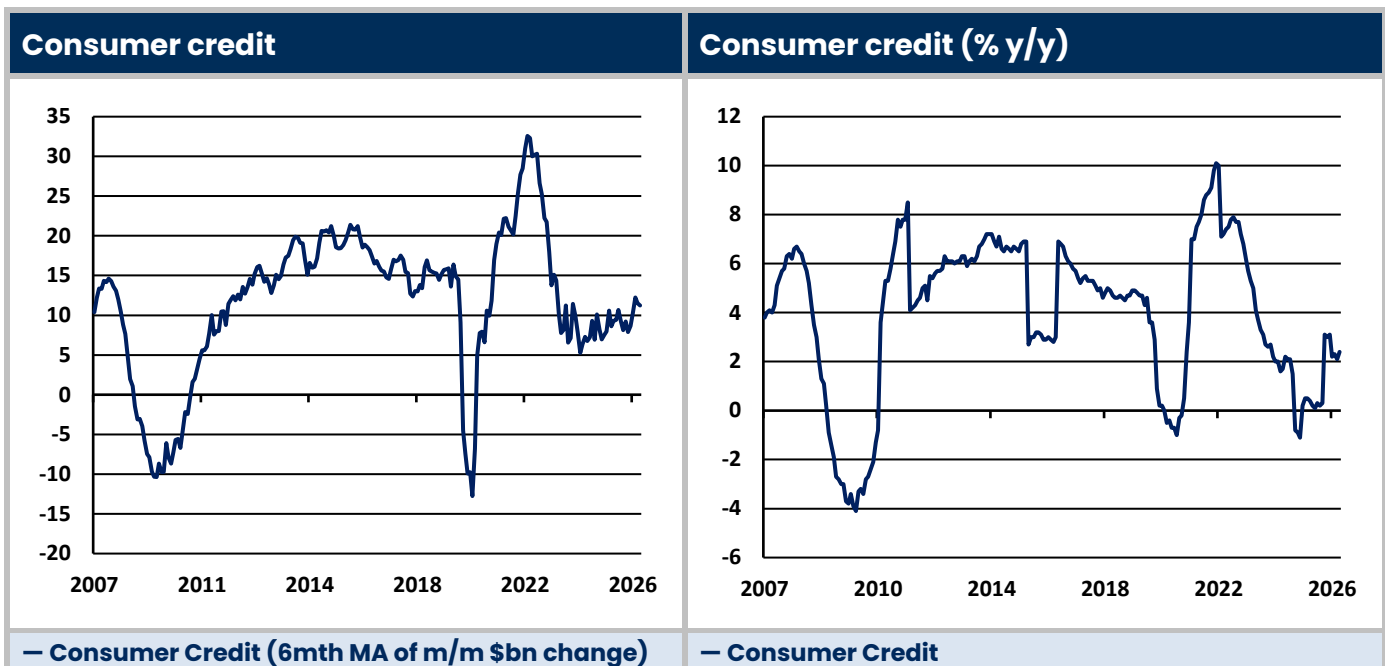
Net Fed Liquidity (\$tn)



Current status: The FED's balance sheet totalled \$6.73tn in assets, with net liquidity at \$5.77tn. Whilst the FED has added approximately \$90bn in net assets via the reserve management purchase programme since the start of the year (now paused), the TGA has also increased by ~\$87bn. These two moves cancel out almost perfectly – explaining why net liquidity has remained essentially flat since the end of QT in December 2025. Moreover, at \$959bn, the TGA balance remains \$109bn above the Treasury's stated year-end target. With Bessent's decision to double long-end buyback operations in an attempt to suppress long term treasury yields, we are likely to see this balance used as a liquidity tool - injecting reserves into the banking system without requiring new T-bill issuance. Additionally, the TGA may be used to fund an estimated \$30-35bn in tariff refunds.

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What is this data?

It covers most short- and intermediate-term credit extended to individuals, excluding real estate secured loans. Consumer credit growth will directly influence money growth and monetary velocity. Both series have an approximate five-week lag, so the most recent observations reflect June 2026.

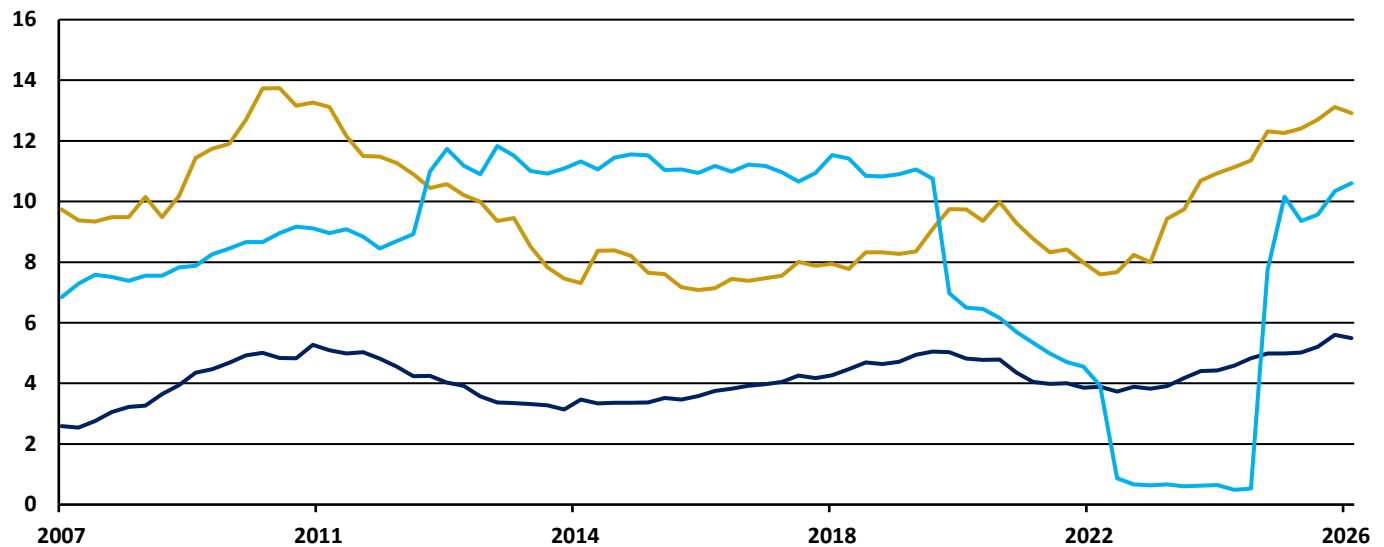
Current status: Total consumer credit outstanding is growing 2.4% YoY, slightly moderating from 3.1% in February. On a monthly basis, June saw credit growth of \$14.2bn – a sharp recovery from a \$1.1bn contraction in May. Nevertheless, looking at the six-month moving average, we can see that whilst consumer credit growth remains strong in 2026, the average has now declined for two consecutive months. Although monthly volatility makes the moving average sensitive to individual prints, the readings corroborate YoY growth and show consumer credit continuing to grow, albeit at a slightly slower pace. However, revolving credit is where sustained pressure is most visible, with credit card balances now at \$1.26tn, up 1.7% QoQ and approximately 5.9% YoY – nearing the Q4 2025 record high of \$1.28tn. Importantly, revolving credit balances continue to rise despite credit-card APRs at their highest levels in a decade (20–30%). This is consistent with a necessity-driven borrowing narrative, whereby households are forced to absorb high borrowing costs as prices continue to rise whilst income growth slows. Nevertheless, consumer credit conditions seem resilient, supported by improving credit card charge-off rates and a relatively stable labour market.

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Transition into Serious Delinquency Rates %



— Student Loan
— Credit Card
— Auto

What is this data?

Quarterly data provided by the FED offer insight into consumers' credit health, showing the % of debt transitioning into serious delinquency, i.e., debt that is over 90 days past due.

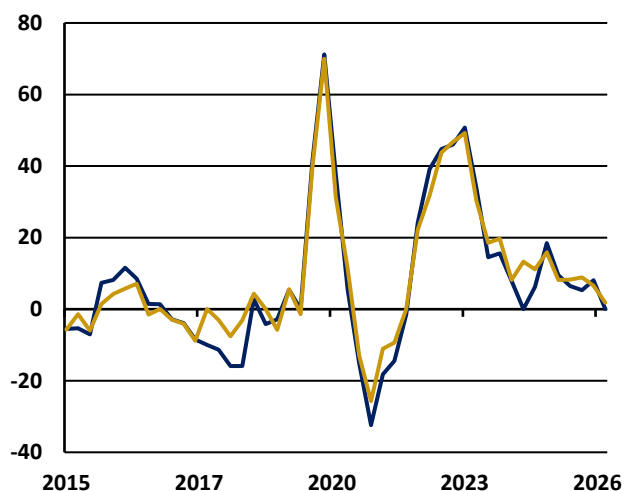
Current status: Q2 data shows the flow of new serious delinquencies stabilising or modestly improving at the aggregate level, with credit card delinquencies falling to 12.9% from 13.1% in Q1 and auto delinquencies at 5.49% – down from a survey high of 5.6%. Nevertheless, numbers remain near post-crisis highs, with student loan delinquencies making fresh 12-month highs at 10.6%. In fact, students now carry more non-education debt than before the pandemic, making their 90-day defaults increasingly reflected in credit card and auto delinquency data. Sub-prime borrowing delinquencies are particularly acute, with Bread Financial, a sub-prime-oriented lender, reporting a delinquency rate of 5.35% in July whilst JPMorgan, BoFA and Wells Fargo all reported credit card delinquencies in the low single digits. Similarly, subprime 60-day auto delinquencies stood at 5.7% in July versus just 0.64% for prime borrowers. Therefore, the data shows a growing split in the US consumer credit system, with over 10% of young adults seeing their credit card debt transition into serious delinquency this quarter.

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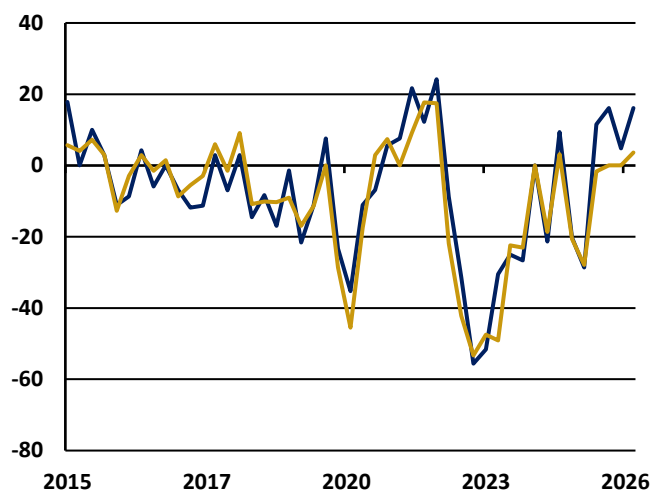


SLOOS- Tighter Lending Standards



— % tightening standards for C&I loans for medium/large firms
 — % tightening standards for C&I loans for small firms

SLOOS- Stronger Demand Conditions



— % reporting stronger demand for C&I loans for medium/large firms
 — % reporting stronger demand for C&I loans for small firms

What is this data?

The Quarterly Fed's Senior Loan Officer Survey provides insights into changes in bank lending standards for commercial and industrial loans. The survey gathers information from senior loan officers at major banks and financial institutions, asking about changes in lending standards, loan demand, and other factors that influence credit availability.

Current status: The most recent SLOOS data indicate the credit environment is transitioning, with the tightening cycle that ran from mid-2022 to early 2026 now effectively concluded. This is reflected in tighter standards for medium/ large firms, which have fallen from 8.1% in April to 0% now. For small firms, tightening standards stand at 1.8%, down from 8.9% in January, suggesting that the tightening impulse is fading even if it has not yet fully halted. The demand picture is more volatile, with medium/ large firm demand recovering to January highs after collapsing in April – demonstrating the effects of macroeconomic uncertainty on business credit appetite. Interestingly, small firm demand for C&I loans recorded its first positive reading in more than 12-months, hinting that small businesses are now more willing to take on credit as banks ease their lending standards. Therefore, the credit channel is reopening, but selectively, prioritising medium/ large corporates whilst small business segments remain in a more restrictive environment.

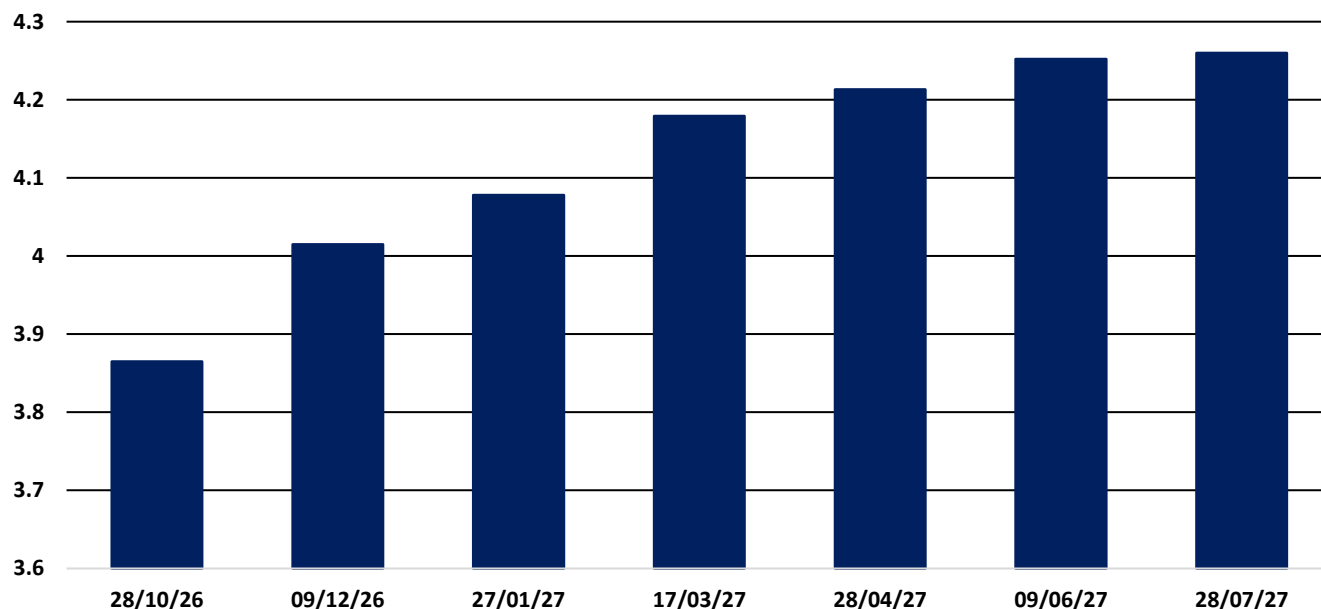
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Fed Funds Futures Pricing

Current Overnight Rate: 3.628%



Implied Overnight Rate at each Federal Reserve meeting

What is this data?

Fed funds futures pricing reveals market expectations for the outcomes of upcoming FOMC meetings regarding the target for the Fed funds rate. This shows us the implied overnight rate for each Federal Reserve meeting.

Current status: the market is pricing in more than a 50% chance of a hike in the next Federal Reserve meeting on 16 September. This reflects a combination of the recent PCE strength (3.7% YoY) and Warsh's hawkish tone at the Jackson Hole conference. At the conference, Warsh reinforced his commitment to controlling inflation, commenting on the "concerning" PCE reading and indicating his readiness to tighten if inflation fails to move toward the 2% target. Nevertheless, December is the first meeting at which a 25bps hike is fully priced in, and the market expects a second hike by March 2027. This is a much more hawkish path than was priced in three months ago and is consistent with the data we discuss throughout this report, with the FED signalling it will have to act if price pressures do not moderate. Therefore, the upcoming September meeting will be the first and most important test of whether the current projected path is validated or repriced.

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Appendix A – Monetary Indicators

The monetary backdrop is profound regarding its potential influence on inflation and is the subject of considerable debate. Below is a simple monetary framework that helps explain the role of money in the economy and how it can affect inflation.

A Monetary Framework

The amount of money circulating in the economy will affect inflation in the medium to long term. This is best expressed via the **Quantity Theory of Identity**.

$$M.V \equiv P.Y$$

Where M is the amount of money in the economy, V is the velocity of money (how many times the amount is used), P is prices, and Y is real output (GDP). Together, P.Y. is equivalent to money or nominal GDP.

This is not controversial as an essential identity. If M (\$500) is used five times (V), then \$2,500 will have been spent and will be equal to the value (P.Y) of all goods sold in the economy—e.g. 2,500 items of real output (Y) at \$1 each (P) or 1,000 of (Y) at \$2.50 each (P), etc.

The identity becomes more interesting in the assumptions made about its components. Traditional Monetarists contend that V is relatively stable and predictable, and the economy's capacity constraints are Y. Monetarists argue that if M rises faster than Y and V is stable, P will increase. In other words, money growth creates inflation.

Others contend that V is unstable, and Y can occasionally deviate substantially away from full capacity, so the relationship between M and P is less obvious. For example, since the Global Financial Crisis, the Federal Reserve has made great efforts to increase the supply of money (M), but this has not led to proportionate increases in P.Y. This is due to two things. First, a reduction in velocity – any extra money balances are merely accumulating in the system (due to higher demand for money) rather than being spent, and second, a lower money multiplier. The money multiplier represents the rate at which the central bank creates money (the monetary base) and generates additional increases in the total money stock, primarily via the lending of commercial banks – more on money creation below.

In sum, this fundamental Quantity Theory Identity is a valuable framework for analysing the potential interaction between the monetary and real sectors of the economy. The data presented in this document aims to shed light on the changes occurring in the various components of this identity.

What is Money?

Another issue is how 'money' or M is defined. Definitions of money include M0, MB (the Monetary Base), M1, M2, M3 and MZM (maturity zero money) and the fundamental difference between them is

primarily related to liquidity. The further we move along the spectrum towards M3, the less liquid 'money' becomes. For example, a considerable time deposit cannot be spent immediately, whereas a checking deposit can. Note that the Fed no longer uses M3 and MZM in the US.

Definitions

M0 = notes and coins *in circulation* with the non-bank public.

Monetary base = M0 + notes and coins held by banks and the central bank + bank reserves held by the banking system at the central bank (bank reserves). **Note:** The last two items are no longer *in circulation*.

M1 = M0 + demand deposits and other checkable deposits (including savings deposits after the Fed methodological revision—they were previously in M2). Note that bank reserves are not included in M1, which is essential when considering how Fed QE affects M1 and M2, etc.

M2 = M1 + time deposits less than \$100k + retail money funds. **Note:** Institutional money market funds are excluded from M2.

M3 = M2 + large time deposits + institutional money market funds + short-term repos and other significant liquid assets.

MZM (Money Zero Maturity) = M2 + all money market funds less time deposits. **Note:** MZM aimed to identify all forms of 'liquid' money and was a hybrid of M2 and M3.

Who creates Money?

A helpful way to think about money – again relevant when considering Fed QE – is to consider who created it. The short answer is that central and commercial banking systems create money.

The Monetary Base is created and influenced by the Central Bank. It is so-called because it serves as the base from which all other forms of money (non-M0, M1, M2, etc.) are created by the commercial banking system through bank lending.

For example, using QE, the Fed buys T-Bonds from a bank and credits that bank's account at the Fed with the proceeds. These funds are now reserves. At this point, no money has entered circulation, so no other measure of money apart from the Monetary Base has been affected.

As the Monetary Base has increased, commercial banks are more *able* to create other money by issuing new loans, and if they were to do this, it would lead to a corresponding rise in deposits. Bank lending is the primary driver of 'money creation'. This is because a loan, when advanced to the borrower, is deposited into the borrower's account, resulting in an immediate increase in deposits (higher M1). Or, if the 'loan' is via a credit card, the borrower's account will not be affected. Still, the credit card spending recipient will deposit the revenue in their bank account, so deposits somewhere in the system will have increased because of the 'loan' (higher M1).

In summary, increasing the Monetary Base (via, e.g., Fed QE) enhances banks' ability to create additional money, such as M1. However, the rate at which this happens (the money multiplier) will depend on the banks' commercial judgment of whether they would like to advance extra loans.

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