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Fed Talk and PPI Dictate Market Tone

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Last week's better-than-expected October CPI report further heightened investor focus on inflation and the likely Fed response. Earlier this week, the producer price index (PPI) added to the apparent improvement, with final demand PPI rising just +0.2% in October, roughly half of the median forecast. On a year-over-year basis, the headline PPI measure is now rising at a +8.0% pace, down sharply from the +11.3% cycle high in June.

Energy prices on the producer side climbed +2.7% last month, while food prices were up +0.5%. Core PPI (which excludes food and energy) was *unchanged* in October and up +6.7% on an annual basis, down from a cycle high of +9.2%. The PPI report wasn't too much of a surprise as it essentially mimicked the CPI declines. What it did was reinforce the idea that prices have peaked and are moving lower, a bit quicker than expected.

Exactly how quickly prices retreat from here is open for debate. On Monday, FOMC Vice Chair Lael Brainard told *Bloomberg News* that last week's inflation data was "reassuring," and "it will probably be appropriate, soon, to move to a slower pace of rate increases." Several other Fed officials echoed the dovish tone with the Chicago, San Francisco and Dallas Fed presidents also signaling a slowdown in the tightening pace may be appropriate.

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On Wednesday morning, St. Louis Fed President James Bullard, a notorious inflation hawk, threw some cold water on the inflation reduction party, saying "Thus far, the change in the monetary-policy stance appears to have had only limited effects. In order to attain a sufficiently restrictive level, the policy rate will need to be increased further." The bond market gave back some of the rally on Bullard's caution, but as of this morning, the futures market is still indicating a smaller 50 basis point move at the December Fed meeting.

If the CRB Index is any indication, a recent increase in commodities prices might test investor patience. After tumbling -13.6% from early June through the end of October, the broad all-commodities index has risen +3.8% in the first half of November, suggesting possible upward pressure in the next CPI report.

Market Indications as of 12:08 P.M. Central Time

DOW	Up 71 to 33,617 (HIGH: 36,800)
NASDAQ	Down -50 to 11,095 (HIGH: 16,057)
S&P 500	Down -8 to 3,939 (HIGH: 4,797)
1-Yr T-bill	current yield 4.72%; opening yield 4.63%
2-Yr T-note	current yield 4.50%; opening yield 4.46%
3-Yr T-note	current yield 4.27%; opening yield 4.23%
5-Yr T-note	current yield 3.99%; opening yield 3.95%
10-Yr T-note	current yield 3.81%; opening yield 3.78%
30-Yr T-bond	current yield 3.92%; opening yield 3.89%

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