

Higher PPI Hints at CPI Upside Before Next Week's Fed Meeting

Bond yields are higher in early trading following the release of a disappointing November producer price index (PPI) report. The pace of producer inflation continued to trend lower last month, *but not to the degree economists were expecting*. Headline PPI rose +0.3%, above the +0.2% median forecast, while core PPI rose +0.4%, double the expected increase. Revisions to the October index were also higher.

The annual rise in overall PPI dropped from a revised +8.1% to +7.4%, a bit above the expected +7.2% pace, while core PPI fell from a revised +6.8% to +6.2%; again not quite as much as predicted. A tiny +0.1% increase last month in the price of producer goods contrasted with a +0.4% rise in the price of services, the most in three months.

Investors usually don't attribute much weight to producer price reports, but with the consumer price index (CPI) release scheduled for next Tuesday, the fact that PPI came in above forecasts suggests that CPI could prove more stubborn than the markets are currently expecting.

The two-day FOMC meeting will conclude on Wednesday afternoon with Fed officials almost certain to announce a 50 bp rate hike. The committee will also release a fresh "dot plot," which will very likely indicate a higher peak in the overnight funds target. Although the CPI release and the results of the Fed meeting could spark considerable market movement next week, Powell's post-meeting press conference will be the main event. Bonds have rallied quite a bit over the past month, driving yields lower in anticipation of an eventual pivot by the Fed. However, Powell had made it clear before the 10-day blackout period began that restrictive policy will be required for "some time," and warned that "history cautions strongly against premature loosening of policy." He's likely to reiterate these same hawkish points on Wednesday.

Market Indications as of 10:58 A.M. Central Time

DOW	Up 49 to 33,830 (HIGH: 36,800)
NASDAQ	Up 48 to 11,130 (HIGH: 16,057)
S&P 500	Up 4 to 3,968 (HIGH: 4,797)
1-Yr T-bill	current yield 4.69%; opening yield 4.64%
2-Yr T-note	current yield 4.30%; opening yield 4.31%
3-Yr T-note	current yield 4.06%; opening yield 4.05%
5-Yr T-note	current yield 3.74%; opening yield 3.71%
10-Yr T-note	current yield 3.55%; opening yield 3.49%
30-Yr T-bond	current yield 3.52%; opening yield 3.44%

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