

Bonds Rally as Producer Prices Ease Further

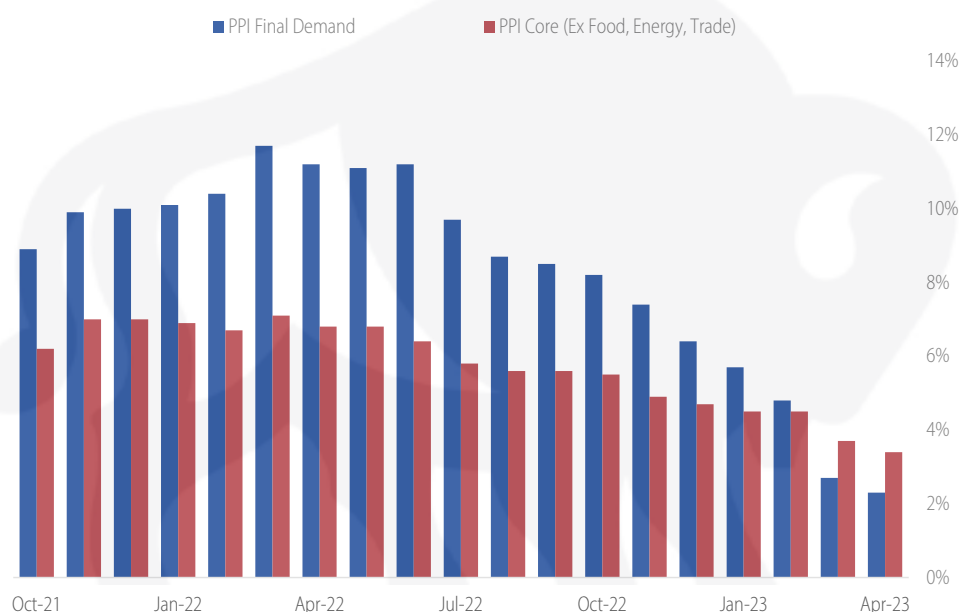
The producer price index (PPI) rose by just +0.2% in April, lowering the annual rate of increase to +2.3%, *the lowest level of producer inflation since January 2021*. Just 10 months ago, final demand PPI was increasing at a +11.3% year-over-year rate.

PPI isn't usually a market mover. Since the monthly measure of wholesale inflation doesn't correlate well with consumer inflation, it typically falls into the supporting information category. This morning, investors are viewing continued moderation in producer prices as another reason for the Fed to end (and quickly reverse) their tightening path.

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Producer Price Index (Year-over-Year Percent Change)



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Source: Bureau of Labor Statistics

The PPI energy index rose +0.8% last month after a -6.0% decline in March, while food prices dropped -0.5%. Core PPI, which excludes volatile food and energy prices, was up +0.2% in April, while the year-over-year core increase dropped from +3.4% to +3.2%, well below the +9.2% pace from March 2022.

Supply chain woes seem to be in the rearview mirror at this point. Warehousing and transportation service prices were *negative* in April for the fourth straight month.

The correlation between PPI and CPI isn't particularly strong, but softening producer prices are one more reason to believe consumer inflation will continue moving

toward the Fed's target over time.

In other news this morning, initial jobless claims rose to their highest level since October 2021 as 264k Americans filed for unemployment benefits last week. This indicates that employers, long reluctant to part with workers during an ongoing labor shortage, are laying employees off at an increased rate.

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Fed officials recognize tightness in the labor market is driving wages higher, and by extension keeping overall inflation elevated. Today's data shows softening of both labor conditions and wholesale inflation, which indicates the Fed is on the right track. However, there is still no immediate reason to pivot to rate cuts this year.

Between now and the next FOMC meeting on June 14, Fed officials will do their best to realign the markets with the committee's monetary policy stance. This morning, Minneapolis Fed President Neel Kashkari noted that inflation has come down but reiterated that it was *still well above the Fed's +2.0% target*. He also acknowledged that wage growth has softened, while characterizing the job market as strong.

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Market Indications as of 9:43 A.M. Central Time

DOW	Down -358 to 33,173 (HIGH: 36,800)
NASDAQ	Down -45 to 12,261 (HIGH: 16,057)
S&P 500	Down -21 to 4,117 (HIGH: 4,797)
1-Yr T-bill	current yield 4.68%; opening yield 4.68%
2-Yr T-note	current yield 3.83%; opening yield 3.91%
3-Yr T-note	current yield 3.50%; opening yield 3.57%
5-Yr T-note	current yield 3.30%; opening yield 3.38%
10-Yr T-note	current yield 3.36%; opening yield 3.43%
30-Yr T-bond	current yield 3.74%; opening yield 3.80%

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