

Markets Ignore Warm PPI Report

Wholesale prices failed to follow the cooling trend evident in yesterday's consumer inflation report, although early trading suggests investors have dismissed the somewhat warmer PPI numbers. The final demand producer price index (PPI) rose +0.2% last month, above the +0.1% median forecast, while the previous month's -0.2% decline was revised upward to *unchanged*.

This morning's report from the Bureau of Labor Statistics (BLS) showed a significant divide between wholesale prices of goods and wholesale prices of services . . . which follows the same pattern as other inflation measures. Goods prices fell -0.5% last month, with over 60% of that decline resulting from a -5.8% drop in gasoline. It's also worth mentioning (although a tiny part of the overall index) that wholesale egg prices jumped by +55.4% as a result of the ongoing bird flu epidemic. The apparent deflation in goods prices was more than counterbalanced with a +0.6% price increase in services.

When food and energy are excluded, core PPI was up +0.4% in June, topping the +0.2% forecast. Adding to the miss was a prior month revision which pushed the May core reading up from unchanged to +0.3%. On a year-over-year basis, headline PPI climbed from a revised +2.4% to +2.6%, while core PPI rose from a revised +2.6% to +3.0%, both annual measures came in above forecast.

So far this morning, the bond market has taken the miss in stride, gingerly adding to the week's rally. The Fed was not expected to ease monetary policy in July, and nothing in this morning's PPI numbers suggest the widely expected September cut will be delayed. The takeaway this morning is that trend lines are seldom straight. *Inflation should continue to move lower over time, but not without the occasional bump.*

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

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Market Indications as of 8:47 A.M. Central Time

DOW	Up 131 to 39,885 (HIGH: 40,004)
NASDAQ	Up 58 to 18,341 (HIGH: 18,647)
S&P 500	Up 11 to 5,596 (HIGH: 5,634)
1-Yr T-bill	current yield 4.89%; opening yield 4.89%
2-Yr T-note	current yield 4.49%; opening yield 4.51%
3-Yr T-note	current yield 4.26%; opening yield 4.29%
5-Yr T-note	current yield 4.13%; opening yield 4.14%
10-Yr T-note	current yield 4.21%; opening yield 4.21%
30-Yr T-bond	current yield 4.42%; opening yield 4.42%

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