

## Next Week's Fed Call a Toss-up as Import Prices Deflate

With less than a week to go before next Wednesday's FOMC announcement, the futures market is indicating a virtual coin toss on whether Fed officials cut the overnight target by 25 or 50 basis points. This morning's release of an unexpectedly soft import price index was another indication that inflation is cooling sufficiently enough to allow committee members to concentrate on mounting labor weakness.

Import prices fell -0.3% in August, below the median forecast, and *the biggest single month decline of 2024*. Lower energy prices drove the headline, but when petroleum prices are excluded, the index is still down -0.1%. On an annual basis, overall import prices are now rising at a pedestrian +0.8% rate, half the pace of the previous month. This particular second tier indicator doesn't normally grab the market's attention, but bonds have rallied (yields lower) on the short/intermediate end of the curve as the notion of *importing deflation* supports continued cooling of consumer prices.

Earlier this week, the European Central Bank (ECB) cut the overnight rate by 25 bps for the second time this summer. Last week, the Bank of Canada cut for the third time since June. Unlike its central bank counterparts, the Fed has held the overnight rate steady for nearly 14 months. *This patience will end Wednesday afternoon*. The question is whether easing price pressures and labor market concerns will combine to prompt a bigger move.

### Market Indications as of 9:30 A.M. Central Time

DOW	Up 258 to 41,355 (HIGH: 41,563)
NASDAQ	Up 48 to 17,618 (HIGH: 18,647)
S&P 500	Up 24 to 5,619 (HIGH: 5,667)
1-Yr T-bill	current yield 4.03%; opening yield 4.06%
2-Yr T-note	current yield 3.60%; opening yield 3.60%
3-Yr T-note	current yield 3.45%; opening yield 3.44%
5-Yr T-note	current yield 3.44%; opening yield 3.43%
10-Yr T-note	current yield 3.67%; opening yield 3.65%
30-Yr T-bond	current yield 3.99%; opening yield 3.97%

*Bonds have rallied (yields lower) on the short/intermediate end of the curve as the notion of importing deflation supports continued cooling of consumer prices.*

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