

Bond Market Ignores Rising Producer Prices

Wholesale prices were slightly warmer-than-expected in October, although the subsequent bond market rally suggests investor attentions are focused elsewhere.

Final demand PPI rose +0.2% last month after a +0.1% advance the previous month. Most of the increase was a result of higher prices for services, and according to BLS data, one-third of the rise in services is attributed to a +3.6% increase in the cost of portfolio management. Goods prices were more restrained. On a year-over-year basis, headline PPI rose from a revised +1.9% to a four-month high of +2.4%.

PPI ex food, energy and trade rose +0.3% in October after a +0.1% September increase. On a year-over-year basis, this core measure climbed from an upwardly-revised +3.3% to +3.5%, matching a 19-month high. The optics of a rise in the annual PPI core is a bit unnerving, but consumer prices are much more critical and hold centerstage on inflation.

In other news, initial jobless claims (first-time filings for state unemployment benefits) fell to 217k for the week ending Nov 8th. This number is slightly less than the average weekly filings over the past year and well below recent highs from six weeks ago. The labor market appears quite healthy, which suggests a little less urgency to cut rates going forward.

Frankly, both of this morning's releases make an argument for fewer cuts and higher market yields, although yields are actually lower in early trading. Tomorrow's release of October retail sales will provide an update on consumer spending, and by extension an early measure of first quarter GDP.

Market Indications as of 9:21 A.M. Central Time

DOW	Down -78 to 43,881 (HIGH: 44,293)
NASDAQ	Down -67 to 19,163 (HIGH: 19,299)
S&P 500	Down -8 to 5,976 (HIGH: 6,001)
1-Yr T-bill	current yield 4.30%; opening yield 4.28%
2-Yr T-note	current yield 4.26%; opening yield 4.29%
3-Yr T-note	current yield 4.24%; opening yield 4.27%
5-Yr T-note	current yield 4.28%; opening yield 4.31%
10-Yr T-note	current yield 4.42%; opening yield 4.45%
30-Yr T-bond	current yield 4.58%; opening yield 4.63%

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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