

## Hot February PPI Squashes Whatever Remains of Near-Term Rate Cut Hopes

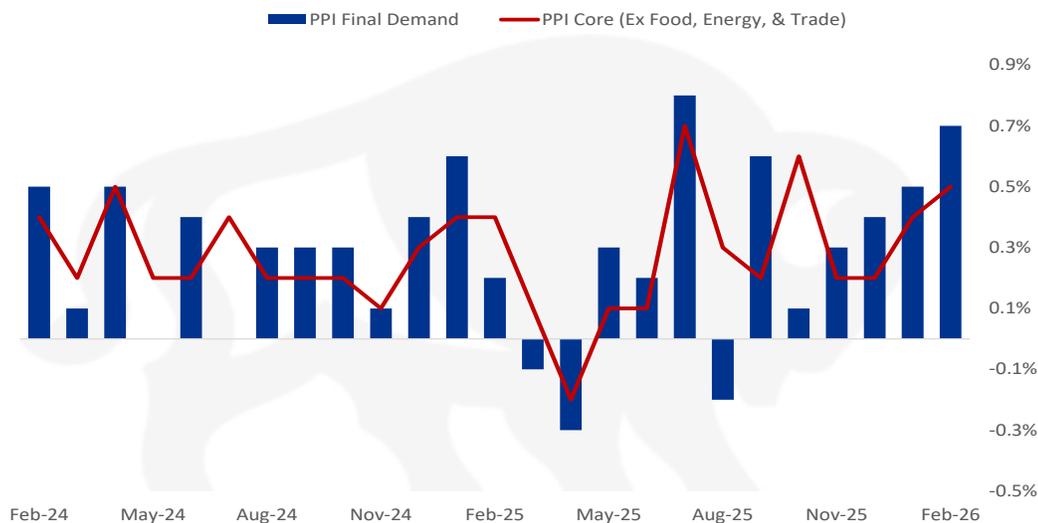
This morning's release of the February producer price index (PPI) from the Bureau of Labor Statistics (BLS) came in hotter than expected and will put an end to any lingering hopes for rate cuts this summer. The 0.7% gain in the headline PPI for the month crushed the median forecast for a +0.3% increase while the year-over-year rate surged to +3.4% from January's +2.9% and easily topped forecasts for a +3.0% increase. The core PPI, which excludes food, energy and trade, wasn't quite as bad but still posted a +0.5% increase for February and +3.5% for the year. It's not just that the PPI numbers were ugly, but the trend is very disconcerting as PPI has been gaining steam with larger monthly gains for four months in a row. All of this coming before the Iran war sent oil prices dramatically higher which will undoubtedly push producer prices up further in the months to come.

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### Producer Price Index (Month-over-Month Percent Change)



Source: Bureau of Labor Statistics

The biggest contributor to February's increase was a 0.37% rise in services costs, as well as gains in food (+0.13%) and energy (+0.12%). The next couple of months will see huge contributions from energy thanks to rising gas and oil prices. Food will be impacted as well due to higher costs for transportation and fertilizer.

While PPI is not as closely followed as the CPI (consumer price index) or the PCE (personal consumption expenditures), today's data adds to the growing mountain of evidence that inflation remains a problem that isn't going away any time soon. That will keep the Fed firmly on hold and there is zero chance of a rate cut coming at today's FOMC meeting. More on that later today.

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## Market Indications as of 12:12 P.M. Central Time

DOW	Down -463 to 46,531 (HIGH: 50,188)
NASDAQ	Down -201 to 22,278 (HIGH: 23,958)
S&P 500	Down -36 to 6,680 (HIGH: 6,979)
1-Yr T-bill	current yield 3.65%; opening yield 3.62%
2-Yr T-note	current yield 3.72%; opening yield 3.68%
3-Yr T-note	current yield 3.72%; opening yield 3.68%
5-Yr T-note	current yield 3.83%; opening yield 3.79%
10-Yr T-note	current yield 4.23%; opening yield 4.20%
30-Yr T-bond	current yield 4.86%; opening yield 4.85%

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