

Less Warm March PPI Grants Temporary Market Relief

Wholesale prices were surprisingly tame in March as the headline producer price index (PPI) rose just +0.5%, well below the +1.1% median forecast. Nearly the entire increase was driven by a +8.5% jump in final demand energy prices. Within the energy category, wholesale gasoline prices rose +15.7%. Final demand food prices were -0.3% lower last month, with significant declines noted in fruits and vegetables. When food and energy are excluded, core PPI rose just +0.1%, *the smallest monthly increase since last August*.

Note: "final demand" PPI measures changes in selling prices received by domestic producers.

On a year-over-year basis, headline PPI rose from +3.4% to +4.0%, a significant increase but well below the +4.6% median forecast. Core PPI held steady at +3.8%, under the +4.1% median forecast.

While prices for final demand goods (60% of the overall index) climbed +1.6% in March, prices for final demand services (40% of the overall index) were unchanged as trade margins fell while transportation and warehousing prices softened.

This morning's report is somewhat of a relief, coming in significantly lower than expected with prior month revisions lowering producer price pressure even further. However, PPI data collection wrapped up on March 13, just two weeks into what was expected to be a limited engagement in Iran. Today happens to be the final day of data collection for April PPI ...and obviously the conflict is ongoing. A full month of higher energy prices will be reflected in the next report, suggesting April PPI could be warmer still.

Ongoing inflationary pressure will depend on the evolving conflict in the Middle East and at this point, the Strait of Hormuz remains essentially closed, with just five vessels crossing yesterday and two today.

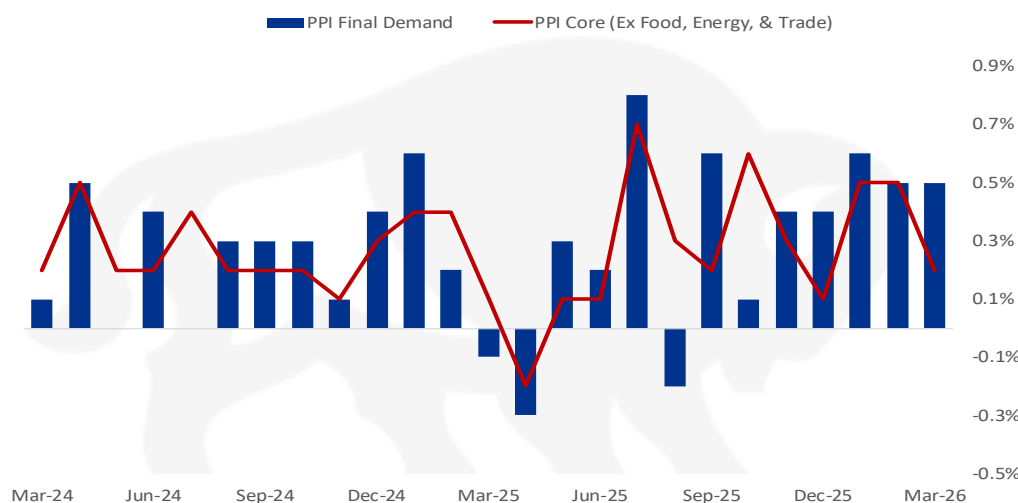
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Producer Price Index (Month-over-Month Percent Change)



Source: Bureau of Labor Statistics

Please see disclosure starting on page 2

Bond yields are flat, while equities are higher in early trading. PPI has a historically weak correlation with CPI, but certain components feed into PCE. That being said, this report will have no impact on Fed monetary policy. The April FOMC meeting is in two weeks and Fed officials will remain firmly on hold, watching events in the Middle East along with the rest of us.

Market Indications as of 8:50 A.M. Central Time

DOW	Up 145 to 48,363 (HIGH: 50,188)
NASDAQ	Up 242 to 23,425 (HIGH: 23,958)
S&P 500	Up 26 to 6,912 (HIGH: 6,979)
1-Yr T-bill	current yield 3.69%; opening yield 3.67%
2-Yr T-note	current yield 3.78%; opening yield 3.77%
3-Yr T-note	current yield 3.80%; opening yield 3.79%
5-Yr T-note	current yield 3.92%; opening yield 3.90%
10-Yr T-note	current yield 4.30%; opening yield 4.29%
30-Yr T-bond	current yield 4.90%; opening yield 4.89%

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