

Wholesale Prices Fall in June

A key inflation indicator came in cooler-than-expected for the second straight day, further reducing the probability of a near-term rate increase. Lower energy prices more than offset a modest rise in trade services as the final demand producer price index (PPI) fell -0.3% in June. *The first negative reading since last August* reversed a portion of the worrisome gains from April and May. Much of the June drop resulted from a -1.4% decline in goods prices, more specifically a -12.0% plunge in the cost of gasoline.

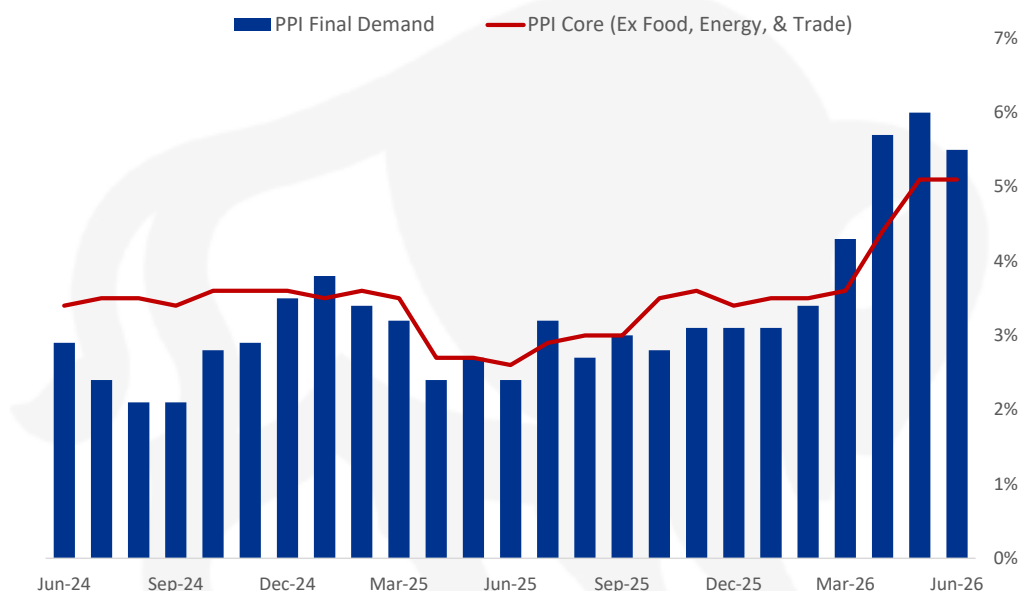
When the more volatile food, energy and trade components are excluded, the index rose a slight +0.1%, below forecast and a sharp deceleration after surging +0.8% in May. On a year-over-year basis, headline PPI retreated from a revised +6.0% reading in May to +5.5%, while core PPI ex trade, held steady at an annual pace of +5.1%.

The June PPI report should be encouraging from the Fed's perspective as several categories that feed into core PCE, in particular, portfolio management and other financial-service components, didn't repeat May's outsized gains. This implies the Fed's preferred inflation gauge will show similar moderation when released in two weeks.

However, a skeptical eye is warranted as the recent cooling trend may prove short-lived. All of the inflation reports since February have been heavily influenced by the price of crude oil, which dipped below \$70 (WTI) in June with the announcement of a *memorandum of understanding* and 60-day ceasefire in the Iran conflict. That fragile ceasefire has since ended, and *oil and gas prices are once again rising in July*.

Bonds have rallied in early trading, driving yields lower for the second straight day.

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



Source: Bureau of Labor Statistics

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Market Indications as of 9:47 A.M. Central Time

DOW	Up 163 to 52,671 (HIGH: 53,056)
NASDAQ	Up 62 to 26,169 (HIGH: 27,094)
S&P 500	Up 23 to 7,566 (HIGH: 7,610)
1-Yr T-bill	current yield 3.98%; opening yield 4.00%
2-Yr T-note	current yield 4.15%; opening yield 4.19%
3-Yr T-note	current yield 4.20%; opening yield 4.23%
5-Yr T-note	current yield 4.28%; opening yield 4.31%
10-Yr T-note	current yield 4.56%; opening yield 4.58%
30-Yr T-bond	current yield 5.09%; opening yield 5.10%

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