Bond Yields Climb as Crude Soars

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Producer prices reaccelerated in August, following two months of easing pressure. Although an expected rebound in energy prices drove the headline increase, several transportation-related components indicated energy costs were bleeding into the core. The details of this morning's PPI release are significantly less important than the continued rise in crude oil and gasoline costs which suggest that September prices will be even higher.

Brent crude topped $105 this morning, while WTI moved briefly above $100 per barrel. AAA reported today's average nationwide pump price at $4.28 per gallon, up sharply from $4.01 last week. The price of diesel continues to reach fresh highs, now at a record $5.98.

The European Central Bank, as expected, increased its overnight target by 25 bps early this morning to 2.50%. The second quarter-point increase since the war began was in direct response to the rise in inflationary pressure related to the ongoing conflict(s). The futures market indicates an additional 75 bps of tightening by the ECB over the next 12 months.

Here in the U.S., bond yields are higher *once again* with the 10-year Treasury note moving above 4.91%. With the exception of a brief period in 2023, it's been over 19 years since the 10-year has traded at this lofty level. Although Freddie Mac has not released its average mortgage rates for this week, market movement suggests the 30-year fixed loan rate will be 10-15 bps higher. At the same time, the three-year Treasury yield moved above 4.62%, now up nearly 125 basis points since the war began in late February.

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The overriding problem is that the conflict has extended *well beyond* the ambitious initial timeframe. With the situation escalating further in recent days, market participants are factoring-in a lengthier period of elevated prices and now believe the FOMC may be forced to hike next week. Even if tomorrow's key CPI release somehow comes in cooler-than-expected, the Fed may have little choice but to defend its credibility and bend to the market.

Market Indications as of 10:56 A.M. Central Time

DOW	Down -309 to 52,072 (HIGH: 54,349)
NASDAQ	Down -146 to 26,107 (HIGH: 27,094)
S&P 500	Down -31 to 7,605 (HIGH: 7,799)
1-Yr T-bill	current yield 4.24%; opening yield 4.15%
2-Yr T-note	current yield 4.53%; opening yield 4.43%
3-Yr T-note	current yield 4.63%; opening yield 4.52%
5-Yr T-note	current yield 4.71%; opening yield 4.62%
10-Yr T-note	current yield 4.92%; opening yield 4.85%
30-Yr T-bond	current yield 5.34%; opening yield 5.30%