

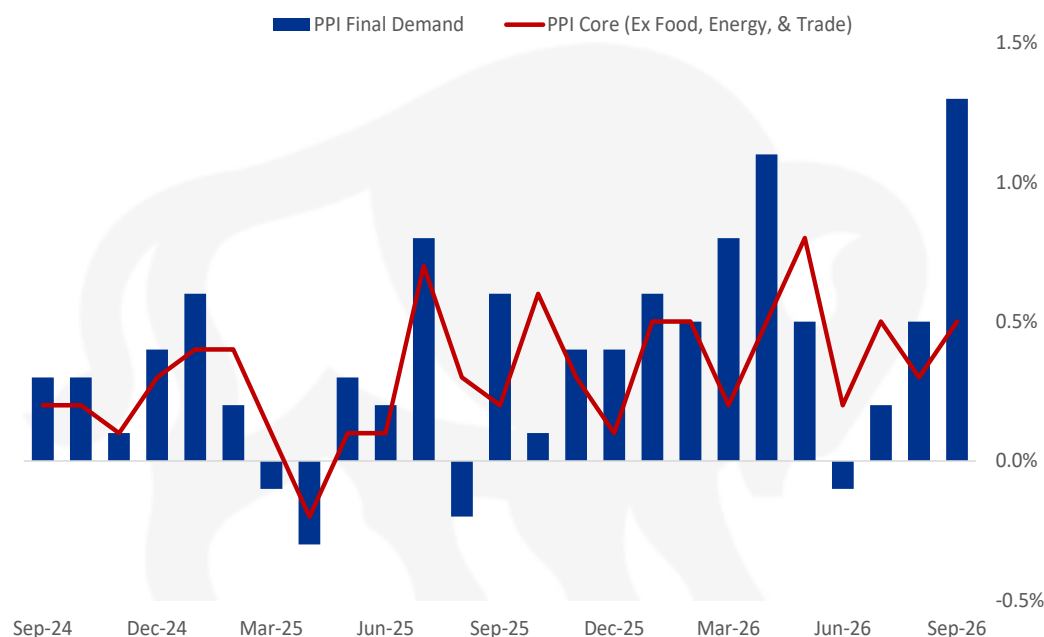
Despite Rising Producer Prices, Warsh is Silent on October Fed Meeting

Last night, Fed Chair Kevin Warsh addressed global financial leaders at an International Monetary Fund (IMF) forum in Bangkok. With less than two weeks to go before the October FOMC meeting, investors looking for clues on Fed policy may have been disappointed as Warsh reiterated his less-is-more stance, saying, “I don’t believe in saying now what I might do at the meetings we have in the balance of this year. It’s a new chapter at the Fed, and we’re not in that business anymore.” Given that several key inflation indicators were warmer-than-expected last month, Warsh had the opportunity to brace investors for a potential rate increase ... *but didn’t*. This morning, the futures market is indicating just a 15% probability of a quarter point hike on October 28, down from 27% yesterday.

The inflation outlook hasn’t improved much, if any, so far this month. Updated data from AAA showed the national average daily gas price was essentially unchanged and down 4 cents from a month ago, while the average diesel price crept up by a penny and is 6 cents higher over the past month. Mortgage rates, according to Freddie Mac, were little changed on the week with the 30-year fixed rate average holding steady at a three-year high of 7.40% and the 15-year rate slipping two basis points to 6.71%.

Yesterday, two important data releases indicated rising wholesale prices and continued resiliency by consumers. A sobering report on producer inflation showed headline PPI surging +1.3% in September, more than double the median forecast. Nearly half of the largest single-month increase in PPI since March 2022 was attributed to a sharp rise in energy prices. Core PPI ex energy, food and trade was up +0.5%, still too warm, but less alarming.

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



Source: Bureau of Labor Statistics

Please see disclosure starting on page 2

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On a year-over-year basis, wholesale inflation rose from a revised +5.6% to +6.3%, while the core climbed from +4.8% to +5.0%. The components of PPI that feed into PCE (the Fed's preferred inflation gauge) suggest the September PCE report (released in two weeks) could appear a bit warmer than the September CPI. The most notable PCE input from PPI is a +5.0% jump in airfares, which is obviously related to higher jet fuel prices.

On the spending side, headline retail sales for September *appeared* remarkably strong, although the oversized gain was largely the result of inflation-fueled gas station receipts. The +0.8% increase easily topped the +0.3% median forecast, while prior revisions pushed the August advance up from +1.2% to +1.3%. However, the so-called "control group," which excludes sales at gas stations, auto dealers, building materials stores and food service establishments, was up just +0.1%, below the +0.3% median forecast.

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The control group is particularly important because it feeds directly into the GDP calculation, representing the personal consumption component. Since approximately two-thirds of GDP growth comes from the consumer, yesterday's release indicates inflation at the pump is reducing discretionary spending capacity. Eight of 13 categories registered increases last month, although by far the biggest was a +6.4% jump in sales at gasoline station. Since retail sales are not adjusted for inflation, the increase simply reflected higher prices.

Market Indications as of 11:36 A.M. Central Time

DOW	Down -69 to 52,108 (HIGH: 54,349)
NASDAQ	Down -388 to 26,325 (HIGH: 27,600)
S&P 500	Down -41 to 7,703 (HIGH: 7,819)
1-Yr T-bill	current yield 4.45%; opening yield 4.44%
2-Yr T-note	current yield 4.77%; opening yield 4.76%
3-Yr T-note	current yield 4.86%; opening yield 4.85%
5-Yr T-note	current yield 4.93%; opening yield 4.90%
10-Yr T-note	current yield 5.13%; opening yield 5.08%
30-Yr T-bond	current yield 5.45%; opening yield 5.42%

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