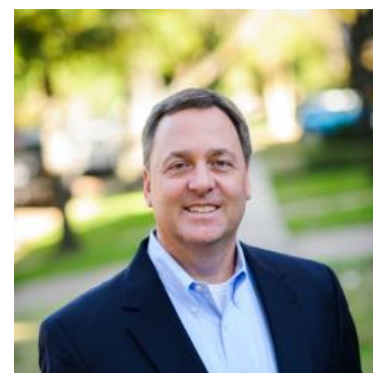


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The Day Ahead: Super Cool PPI Makes For a Stronger Start

Of the two inflation reports out this week, PPI is the lesser of the two in terms of importance, but it came in far enough below forecasts to prompt some bond buying to start the day. PPI is a complex report relative to CPI, but one of the simplest takeaways from today's data is that wholesalers drastically decreased the extent to which they were passing along higher costs via margins. Another simple takeaway is that a lot of today's apparent downward surge had to do with the previous report's big upward surge. Even after revisions, last month's PPI rose at 0.7%, thus creating a low bar for today's data to come in soft. Looked at another way, the average monthly PPI over the past two months would still be 0.3% (or 3.6% annually) when taking the average of the super hot July and super cool August numbers.



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