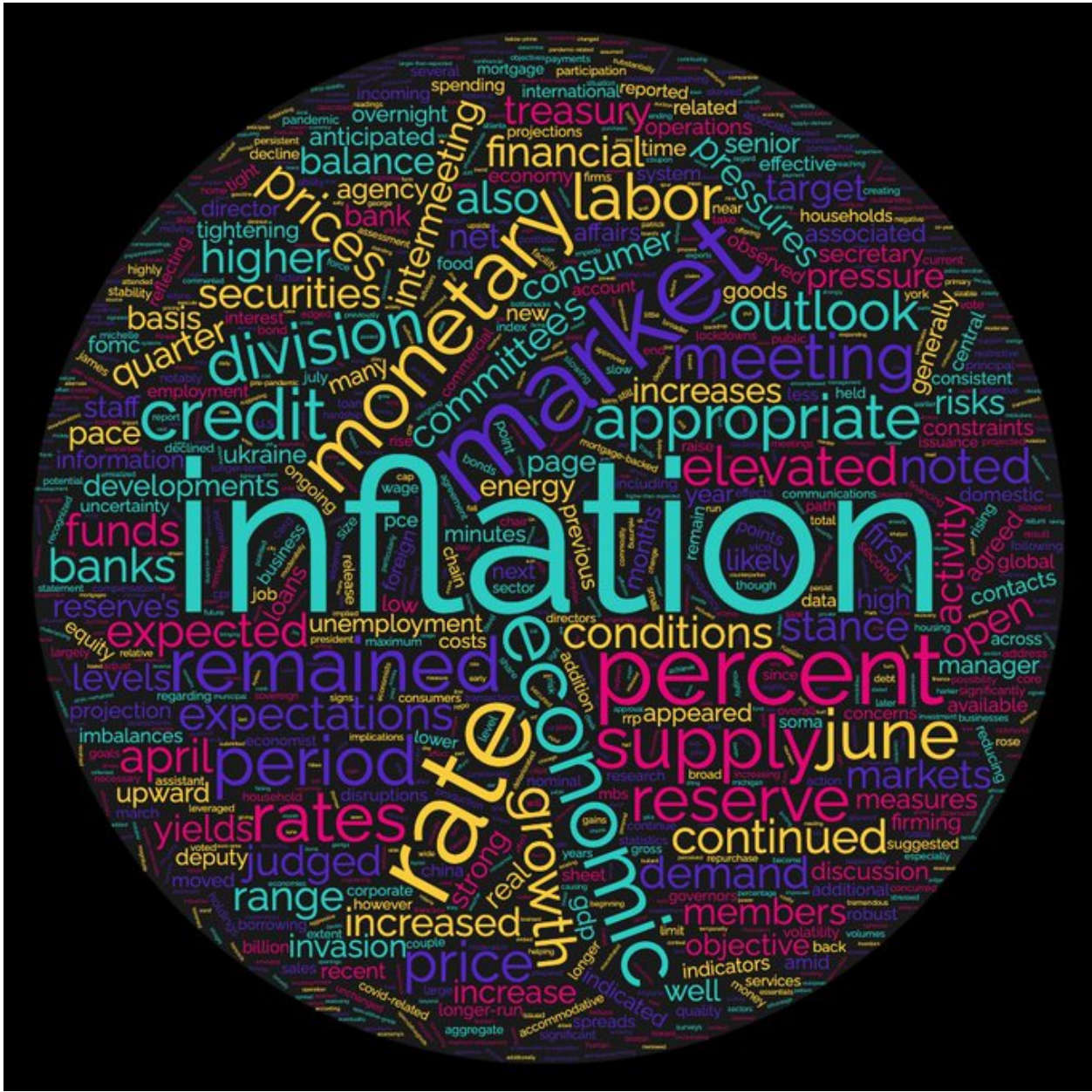




The Consumer Price Index, CPI, rose above last month's figures and economists' expectations. June's inflation rate is 1.3%, a stunning 15.6% annualized. The year-over-year rate rose to 9.1% from 8.6%. More concerning for the Fed, their preferred consumer price gauge, the core index, rose to 0.7% from 0.6%. Food prices, contributing 14% to consumer prices, rose 1% last month, while energy prices counting toward 9.7% of CPI, were up 7.5%. Shelter prices, accounting for a third of consumer prices, rose 0.6%.

The data puts the Fed in the hot seat and raises the prospects they will increase rates by 1% at the July 27th FOMC meeting. Note the Bank of Canada raised its rates by 1% yesterday. The graphic below shows how many times specific words were mentioned in the last FOMC policy statement. "Inflation" was spoken 90 times. More stunning, they never used the word "recession." Inflation data will be the sole driver of Fed monetary policy, barring serious financial stability problems, aka stock and bond market meltdowns.



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What To Watch Today

What to Watch Today

Economy

8:30 a.m. ET: **PPI final demand**, month-over-month, June (0.8% expected, 0.8% during prior month)

8:30 a.m. ET: **PPI excluding food and energy**, month-over-month, June (0.5% expected, 0.5% during prior month)

8:30 a.m. ET: **PPI excluding food, energy, and trade**, month-over-month, June (0.5% expected, 0.5% during prior month)

8:30 a.m. ET: **PPI final demand**, year-over-year, June (10.7% expected, 10.8% during prior month)

8:30 a.m. ET: **PPI excluding food and energy**, year-over-year, June (8.2% expected, 8.3% during prior month)

8:30 a.m. ET: **PPI excluding food, energy, and trade**, year-over-year, June (6.6% expected, 6.8% during prior month)

8:30 a.m. ET: **Initial jobless claims**, week ended July 9 (235,000 expected, 235,000 during prior week)

8:30 a.m. ET: **Continuing claims**, week ended July 2 (1.380 million expected, 1.375 during prior week) ?

Earnings

Pre-market

JPMorgan Chase (JPM) is expected to report adjusted earnings of \$2.88 per share on revenue of \$31.98 billion

Morgan Stanley (MS) is expected to report adjusted earnings of \$1.57 per share on revenue of \$13.33 billion

Conagra (CAG) is expected to report adjusted earnings of 64 cents per share on revenue of \$2.93 billion

First Republic Bank (FRC) is expected to report adjusted earnings of \$2.08 per share on revenue of \$1.47 billion
Cintas (CTAS) is expected to report adjusted earnings of \$2.67 per share on revenue of \$2 billion ?

Post-market

American Outdoor Brands (AOUT) is expected to report adjusted earnings of 10 cents per share on revenue of \$45.4 million

Market Trading Report - The Consumer Price Index Causes Sell Off


The market sold off again yesterday following the latest "*hot CPI*" print which gives the Fed room to hike rates 1% at the upcoming FOMC meeting. The good news is that the short-term overbought condition is reversing as the market held minor support as shown below. However, the downtrend remains firmly intact for now. If the market could hold current support, and rally above the short-term downtrend, such would be a good first sign that a bottom could be forming for a stronger rally. If support fails, we will likely be setting new lows for the market once again. The risk / reward remains clearly risk-off for now, so continue hedging risks accordingly.



Is The CPI Report Lagging?

As we note in the opening, food and energy prices led consumer prices higher in June. While food and energy prices have risen substantially this year, they have fallen recently. The table below shows how futures prices for many key agricultural and energy products are down by over 10% since June 1, 2022. The BLS inflation computations often use data averaged over a few months and lags by a month or longer, which can lead to misleading reports. A further complication is that food prices at grocery stores and restaurants are part of the computations. Are those businesses reducing prices as their input costs decline? Price declines are also starting to show up in the housing market. It may take 3-4 months to see the changing real estate market data filter into the official inflation data.

Will today's PPI inflation report capture some of the price declines in energy and food?

 Real Investment Advice		6/1/2022	7/13/2022	Change
Agricultural Products	Sugar	19.44	18.94	-2.57%
	Coffee	238.25	208.15	-12.63%
	Orange Juice	180	154.53	-14.15%
	Cocoa	2530.87	2349.91	-7.15%
	Corn	754.82	594	-21.31%
	Soybean Oil	78.91	57.86	-26.68%
	Soybean Meal	437.35	427.2	-2.32%
	Soybeans	1683.25	1456.21	-13.49%
	Oats	703.92	462.25	-34.33%
	Rough Rice	17.64	16.38	-7.14%
	Wheat	1040.56	818.25	-21.36%
	Canola	1152.56	928.9	-19.41%
Energy	Crude Oil	115.66	96.32	-16.72%
	Gasoline	4.07	3.18	-21.87%
	Heating Oil	4.03	3.72	-7.69%
	Nat. Gas	8.34	6.57	-21.22%

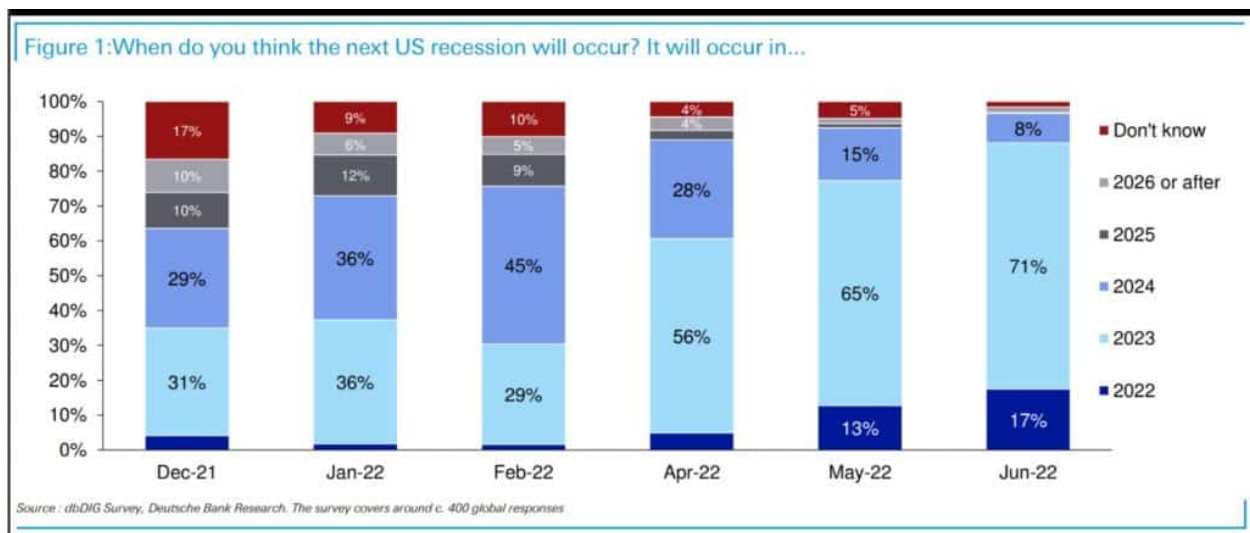
Real Average Hourly Earnings Plummet

With the release of the latest consumer price index, we can update real (after inflation) hourly earnings from last week's employment report. The graph below shows that real average hourly earnings are now down 3.6% yearly. This helps explain why consumer sentiment is horrendous and weak retail sales data. The average consumer took a 3.6% pay cut over the last year, whether they know it or not!



Recession Expectations Continue to Increase

As we note in the lede, the Fed refuses to use the word "recession," yet many investment professionals see growing odds of a recession. 88% of those surveyed by Deutsche Bank expect a recession by the end of 2023 and 17% this year. That is up significantly from 38% and 2%, respectively, at the start of the year. We suspect those numbers will continue to rise, with many who voted for 2023 shifting toward a 2022 recession. As an aside, the bond market is also voting for increased odds of a recession. The 2yr-10yr yield curve is now the most inverted since 2006.



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