



Global Markets React as US Producer Price Index Falls Below Estimates, Signaling that Inflation is Slowing and All Eyes on the CPI and Core CPI.

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The US and European stock markets closed with mixed results following the lower-than-expected US Producer Price Index reading, allowing investors to push the Dow Jones and the S&P 500 to close with gains. However, the tech stock rotation continued, and the Nasdaq Composite closed with losses. A favorable report could pave the way for the central bank to adopt a more accommodative stance on interest rates.

However, should the CPI rise above estimates, it could spell trouble for equity markets, as it would signal that the Fed must delay plans to ease interest rates further. The response to the Producer Price Index inflation report that came in lower than anticipated is to be expected, and since the CPI is only a day away, it is wise to wait. Meanwhile, the US dollar fell against major currencies, and WTI oil and gold are trading lower in commodities.

Producer Inflation Slows More Than Expected

The Producer Price Index (PPI) increased by 3.3% YoY in December was slightly below the forecasted 3.4%. The annual inflation figure reflects lower year-ago readings rolling out of the calculation, a phenomenon known as "base effects." PPI inflation rose just 0.22% monthly, aligning with its average over the past six months, equivalent to an annualized rate of approximately 2.5%. The services component of the PPI was flat for the month, which could help ease inflation in consumer services, a category that remains elevated at 4.5% YoY. Tomorrow's CPI & Core CPI will be significantly watched, and for reference, the latest Inflation Nowcasting has the CPI at 2.86% and the Core CPI at 3.28%.

Bond Yields Tick Higher Amid Slower Disinflation

Bond yields fell slightly, with the benchmark 10-year US Treasury yield closing at 4.78%. Slower disinflation has tempered expectations for rate cuts, as core personal consumption expenditures (PCE) inflation remains at 2.82%, still 29.07% above the Federal Reserve's 2% target. While the Fed is still expected to lower interest rates, the pace may be more gradual as inflation continues its steady moderation into 2025.

Key Economic Data:

- **US Producer Price Index YoY:** rose to 3.31%, compared to 3.00% last month.
- **US Core Producer Price Index YoY:** rose to 3.55%, compared to 3.47% last month.
- **US Producer Price Index MoM:** fell to 0.22%, compared to 0.38% last month.
- **US Core Producer Price Index MoM:** fell to 0.04%, compared to 0.24% last month.

Eurozone Summary:

- **Stoxx 600:** Closed at 508.28, down 0.40 points or 0.079%.
- **FTSE 100:** Closed at 8,201.54, down 22.65 points or 0.28%.
- **DAX Index:** Closed at 20,271.33, up 138.48 points or 0.69%.

Wall Street Summary:

- **Dow Jones Industrial Average:** Closed at 42,490.17, up 193.05 or 0.46%.
- **S&P 500:** Closed at 5,842.91, up 6.69 or 0.11%.
- **Nasdaq Composite:** Closed at 19,044.39, down 43.71 or 0.23%.
- **Birling Capital Puerto Rico Stock Index:** Closed at 3,536.72, up 46.49 points or 1.93%.
- **Birling Capital US Bank Index:** Closed 6,326.60, up 56.49 points or 0.90%.
- **US Treasury 10-year note:** closed at 4.78%.
- **US Treasury 2-year note:** closed at 4.37%.



US Producer Price Index YoY, US Core PPI Price Index YoY, US PPI MoM & US Core PPI MoM



Inflation Nowcasting

Update

Inflation Nowcasting	CPI Forecast	Core CPI Forecast	Updated
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December	2.86%	3.28%	1.13.25
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