

Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:30 AM	PPI Final Demand MoM	Jun	↑	0.3%	0.1%	0.2%	0.5%
08:30 AM	PPI Ex Food and Energy MoM	Jun	↑	0.3%	0.2%	0.2%	0.3%
08:30 AM	PPI Final Demand YoY	Jun	↑	3.4%	NA	3.1%	3.1%
08:30 AM	PPI Ex Food and Energy YoY	Jun	↑	2.8%	NA	2.6%	2.4%
10:00 AM	Wholesale Trade Sales MoM	May	↑	2.5%	NA	0.5%	1.4% R↑
10:00 AM	Wholesale Inventories MoM	May F	↑	0.6%	0.3%	0.5%	0.5%

* ↑ indicates stronger than Consensus estimated, ↓ indicates weaker than Consensus estimated, = indicates in-line with Consensus Estimated

** Estimate from Bank of the West Economics

*** Consensus from Bloomberg

**** ↑ means prior reading revised up, ↓ means prior reading revised down

China Trade War Intensifies, U.S. Producer Price Inflation Hotter Than Expected

Trade war anxieties return as the Trump Administration on Tuesday published a list of 10% tariffs on \$200 billion of Chinese exports. The new list targets China's important manufacturing export industries including electrical equipment, appliances, computer components, furniture, textiles, metals, and auto parts. The tariffs won't take effect immediately, but will face a review process with hearings taking place next month. China has vowed to complain to the WTO and retaliate with a "combination of quantitative and qualitative measures."

U.S. inflation continues to surprise on the upside. The producer price index for final demand rose a solid 0.3% in June, following a robust 0.5% gain in May. A major driver of the June increase was motor vehicles prices which advanced 0.4%. Goods inflation overall increased just 0.1%, while services inflation rose 0.4%. Producer prices excluding food and energy also increased a stronger than forecast 0.3% in June. On a year-ago basis, producer price growth accelerated from 3.1% in May to 3.4% in June. Likewise, producer prices excluding food and energy climbed 2.8% from a year ago, up from 2.4% in the previous month. This hotter than expected inflation report reinforces our forecast for the Fed to raise interest rates two more times this year.

The other U.S. economic data released today surprised to the upside as well. Wholesale trade sales rose a much better-than-expected 2.5% in May from an upwardly revised gain of 1.4% in April. Gas (+8.3%), computers (+4.3%) and autos (+2.9%) were the biggest contributors to the increase. Wholesale trade sales are up 11.8% from a year ago. More importantly, the component of wholesale inventories that feeds into the GDP calculation – wholesale stocks excluding autos – increased 0.8% in May. This suggests Q2 GDP growth might be a little stronger than previously estimated.

U.S. equities are reacting negatively to the escalation of trade tensions. The Dow and the S&P 500 are down 0.71% and 0.62% respectively, while the NASDAQ is down 0.39%. Losses in the S&P 500 today are being led by energy, materials, and industrial stocks.

Treasury yields are mixed today, increasing at the short end of the curve but declining at the long end. The 10-Year Treasury yield is at 2.842% down 0.7 basis points from Tuesday. The 2-10 Treasury spread is down to 27.0 basis points, down 1.3 basis points from yesterday. The futures market probability of another Fed funds rate hike in September is 73.4% today unchanged from Tuesday's close.

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The U.S. dollar is higher against the major currencies today. The Bloomberg dollar spot index is up 0.68% from yesterday's close. The U.S. dollar is increasing the most against the euro, Japanese yen, and Canadian dollar today.