



The bond market was on “inflation watch” this week as market participants scoured newly released inflation data hoping for signs that the recent uptick in prices is temporary – consistent with the Fed’s current “transitory” policy stance. Here’s what they found:

### Consumer Inflation

July’s Consumer Price Index (CPI) increased but at a more moderate pace as compared to the last several months as pressures in re-opening-sensitive categories showed signs of easing. As for the actual data, headline inflation rose 0.5% last month while year-over-year increases remained steady at 5.4%. Furthermore, the increase in core inflation which excludes food and energy was the softest since March. While most economists agree that prices as related to categories still subject to supply-demand imbalance – categories which include used cars, travel, lodging and restaurants – will remain elevated over the near term, question remains as to how long? This softening consumer data gives hope that the material increases in prices over the last several months may actually be slowing – let’s see what next month’s data looks like!

### Producer Inflation

Unlike consumer inflation, producer inflation increased more than expected in July suggesting that higher commodity costs and supply bottlenecks are still adding to inflationary pressures for businesses.

July’s Producer Price Index (PPI) increased 1% from June and 7.8% from a year earlier according to data released on Thursday. Excluding volatile food and energy components, core PPI also rose 1%. Compared to 12 months ago, the core index was up 6.2%. The advances in the overall PPI and core measure from a year ago were the largest in annual data back to 2010. PPI has exceeded forecast estimates since March as prices have been accelerating for much of this year against a backdrop of robust demand, supply chain constraints and shortages of materials. The increases in input costs combined with recent upward pressure on wages help explain the increase in consumer inflation. This continued stronger than expected producer data gives worry that continued price pressure will give way to more persistent inflation. Continued strong producer inflation doesn’t bode well for consumer prices!

Understanding that the Fed is tasked with establishing appropriate monetary policy under the dual mandate of maximum employment and price stability, CMG’s Ross Elford shares valued insight into the current employment picture via this month’s Points to Ponder article. Check it out – it’s a good read!

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### NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
08/16/2021	\$6,500,000	SALINA KS-B-REF UT GO BQ Aa3	2022-2034
08/17/2021	\$3,575,000	TOPEKA KS-A-NTS UT GO SPI+	2022
08/17/2021	\$20,000,000	ST CHARLES MO UT GO Aa2	2022-2041
08/17/2021	\$21,000,000	TOPEKA KS-C-REF UT GO AA	2022-2036
08/19/2021	\$2,545,000	RILEY CO KS -REF -B UT GO BQ RATING APPLIED	2022-2052
08/19/2021	\$910,000	BELLE PLAINE KS-A-NTS UT GO BQ NR	2024

**ECONOMIC CALENDAR**

Monday 8/16	Tuesday 8/17	Wednesday 8/18	Thursday 8/19	Friday 8/20
Empire Manufacturing	Retail Sales Advance MoM	Housing Starts	Initial Jobless Claims	
Total Net TIC Flows	Industrial Production MoM	Building Permits	Continuing Claims	
Mortgage Delinquencies	Business Inventories	FOMC Meeting Minutes	Leading Index	

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	3.25	3.25	3.25	3 Mo.	0.03
Discount Rate	0.25	0.25	0.25	6 Mo.	0.06
Fed Funds Rate	0.10	0.10	0.10	1-Year	0.08
IOER	0.15	0.15	0.10	2-Year	0.10
1-Month Libor	0.10	0.10	0.16	3-Year	0.17
11th Dist COFI	0.28	0.31	0.68	5-Year	0.43
1-Yr. CMT	0.09	0.08	0.13	7-Year	0.72
Dow	35,515.38	34,888.79	27,896.72	10-Year	1.00
NASDAQ	14,822.90	14,677.65	11,042.50	30-Year	1.66
S&P 500	4,468.00	4,369.21	3373.43		
Bond Buyer	2.14	2.04	2.02		

Treasuries & New Issue Agencies ( <i>Spread to Treasuries</i> )						CMO Spreads to Treasuries		
	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year		PAC	Vanilla
3 Mo. Bill	0.04					1-Year	N/A	+40
6 Mo. Bill	0.04					2-Year	45	50
1-Year Bill	0.07					3-Year	53	61
2-Year Note	0.20	0	-12	-13		5-Year	62	72
3-Year Note	0.43	0	-8	-11	-12			
5-Year Note	0.78	1	5	1	-7			
7-Year Note	1.08	3	12	6	-4			
10-Year Note	1.30	11	27	18	7			
20-Year Bond	1.85							
30-Year Bond	1.96							

  

MBS Current Coupon Yields	
GNMA 30 Yr.	1.87%
FNMA 30 Yr.	1.81%
GNMA 15 Yr.	0.44%
FNMA 15 Yr.	1.14%

**About the Author, Dennis Zimmerman**



In 2015, Dennis joined Commerce Bank's Capital Markets Group as Manager of Asset/Liability Services. With his leadership, the Capital Market's ALM team provides asset/liability management consulting services to community banks.

Prior to joining Commerce, he was employed for nearly 26 years at one of the largest privately-held banks in Kansas. In addition to managing a \$775 million bond portfolio, his Asset/Liability Chairman responsibilities included managing margin, interest rate risk, liquidity and capital. Prior to becoming the bank's Finance Treasury Officer, he was a Registered Investment Representative and Supervising Principal in the bank's Capital Markets division.

As a seasoned professional, Mr. Zimmerman offers a comprehensive understanding of bank finance treasury, fixed income, complex financial analysis as well as regulatory and operational awareness. As a banker, he understands the challenge of balancing shareholder expectations within appropriate levels of risk.

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