The Day Ahead: Quarterly PCE Data Causing Concern Over Tomorrow's Monthly Numbers

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It's a bit of a tricky morning in the bond market when it comes to reconciling the data with the market movement. At face value the headlines make a better case for lower rates with GDP at 1.6 vs 2.5, wholesale inventories missing big and Jobless Claims not too far from forecast. But the devil is in the details--specifically, the details inside the quarterly GDP data. GDP will be reported 3 times for Q1. Today was the first of those and as such, the PCE price data component offers a bit of a sneak peek at tomorrow's PCE inflation data.

GDP is not a hugely important report, but PCE inflation is. With all that in mind, the PCE component in today's data was 3.7 vs 3.4. In a world where a 0.1 beat/miss can cause massive volatility for the bond market, that's a huge beat. Bonds will likely be feeling extra defensive until and unless tomorrow's Core PCE number tells a slightly less dramatic story.

Stocks haven't loved the data either, due to the implications for the Fed's rate outlook. The following isn't the pattern normally associated with stocks and bonds, but it is prevalent at times when the market is actively refining its outlook for the Fed Funds Rate.

In the slightly bigger picture, this morning's weakness constitutes the first significant break above the 4.65 level and it breathes a bit more life into the uptrend that had dominated the month of April (the one that looked to be defeated by the 4.65 ceiling.


4.65
4.700%
4.600%
4.500%
4.400%
4.300%
4.200%
Apr
8
15
22
May