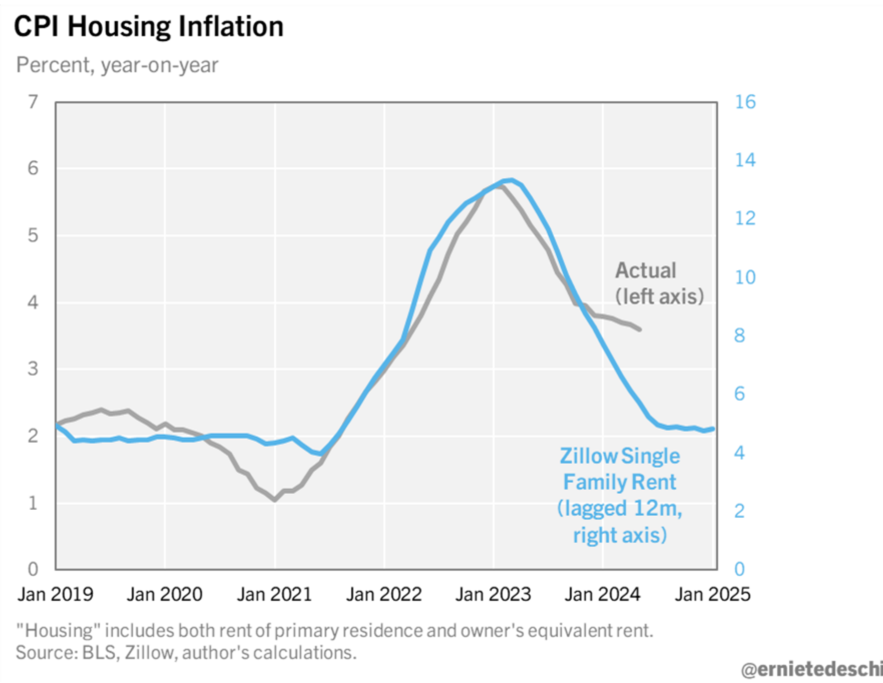
The Day Ahead: Super Strong Start After "Perfect" CPI Number

There are so many line items in the CPI data that it would be hard to imagine a truly perfect report. In today's case, one could still take exception to the persistent elevation of "shelter" component (still 0.4 vs 0.4 last month), or to the fact that shelter is mysteriously lagging more timely metrics, as pointed out in this great chart from Ernie Tedeschi:



But when it comes to proverbial and elusive "target rate" of 2.0% at the core level, today's CPI is quite special. It's not that we've remotely achieved 2.0% on an annual basis, but today's month over month reading was 0.163% before being rounded to 0.2%. If repeated for 12 months, that's a pace of LESS than 2.0%. It's also the lowest reading since 2021 when it was still on the way up.

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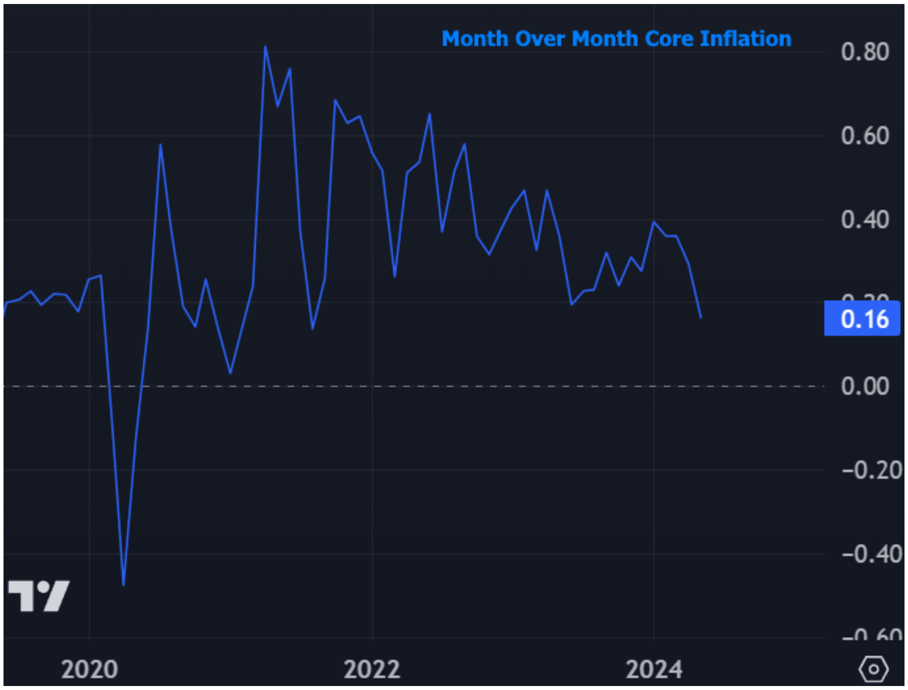

As it stands, core annual inflation is still dropping, but has a ways to go before hitting 2.0%.

Bonds have reacted logically by rallying sharply to the best levels of the past few months. From here, the afternoon's Fed events will determine whether today's rally extends or moderates. Here's how the rally looks in the context of Friday's jobs report rout:

We suspect volume and movement would have been higher than after the jobs report if traders weren't waiting to see what the Fed has to say.