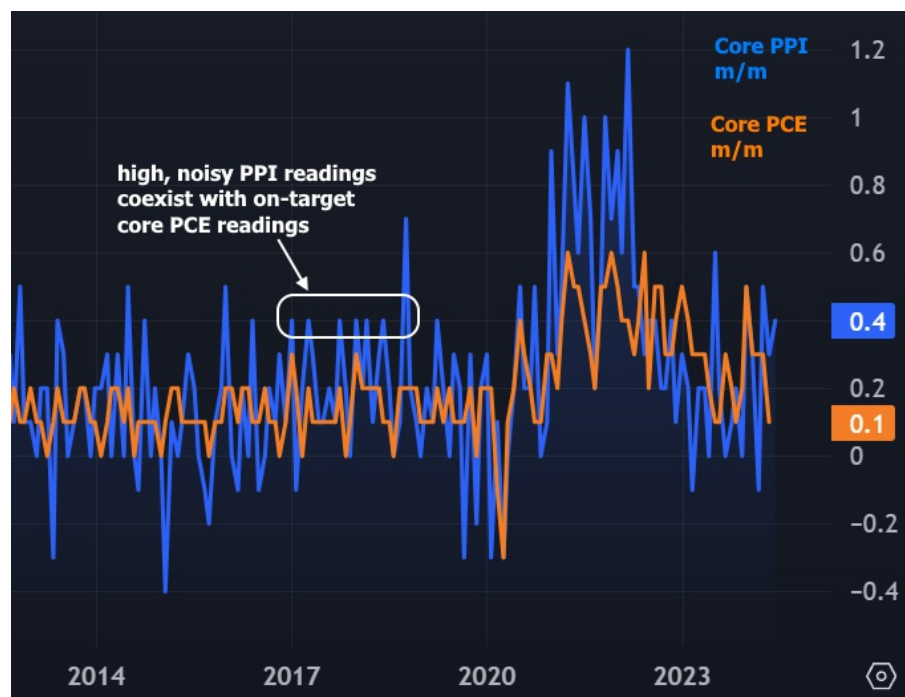


The Day Ahead: Bonds Holding Yesterday's Gains Despite Hotter PPI

The Producer Price Index (PPI) is certainly not in the same league as CPI when it comes to bond market impact, but there have been several notable reactions in the past year. It was a concern, then, to see core PPI come in 0.2 higher than expected and for last month to be revised 0.3 higher. But while there was an initially negative reaction in the bond market, it wasn't big and it didn't last long. The "why" has to do with the components of PPI that directly impact the more important consumer inflation metrics like the PCE price index coming out later this month. Simply put, the big beat in PPI was driven by categories that don't translate to PCE.



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