

MBS & TREASURY MARKETS

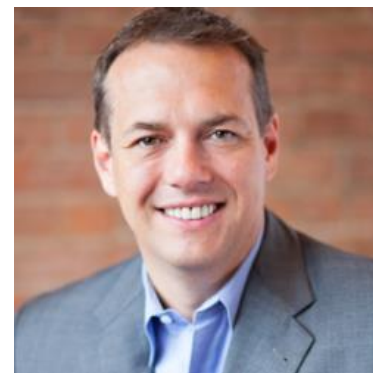
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The Day Ahead: PCE Inflation Offers No Objections to 25bp Cut

This morning's PCE inflation data was in line with expectations calling for a core monthly reading of 0.2%. In fact, the unrounded number was 0.16+ which annualizes at a perfect 2.0%. Despite the apparent win, bonds moved a hair weaker in the 30 minutes following the report. While that weakness has already been erased, it created confusion initially.

There are multiple ways to justify a bit of paradoxical movement. At the time, the best explanation was simply that the level of movement was not even remotely consequential in the bigger picture. Apart from that, we can consider that an "as expected" reading stops short of condoning a 50bp Fed rate cut next month. Some traders are adjusting accordingly.

Other traders are closing up positions for the month, creating discrete movement not related to the data. All of this is occurring on a Friday before Labor Day weekend, which means low volume and light liquidity (easier for fewer trades to have a larger impact on movement).



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