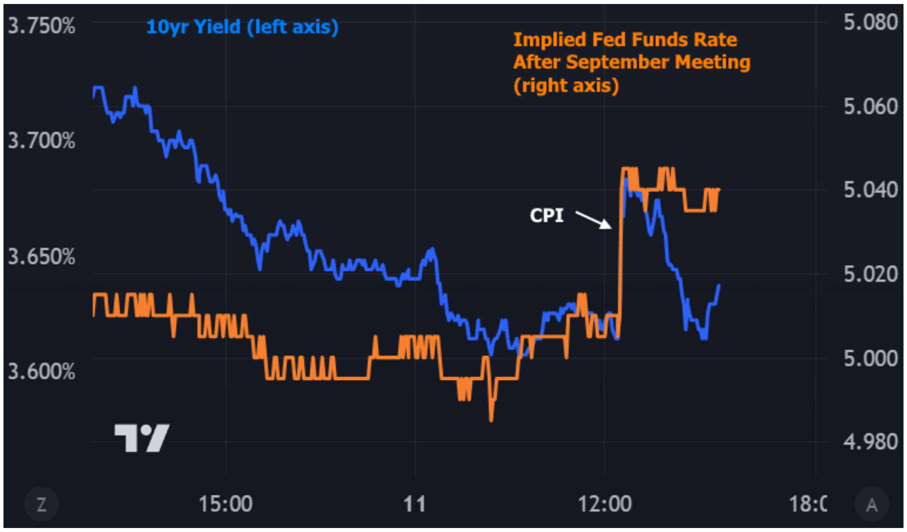
The Day Ahead: CPI Helps Flesh Out Rate Cut Odds, But Not Much Else

Heading into today's CPI data, there were valid doubts about the data's role as one of the two biggest market movers (the jobs report being the other). Those doubts proved to be well founded as far as MBS and Treasuries are concerned with all of the initial reaction being erased in the first two hours of trading. Specifically, bonds lost ground after the data, but gained it all back. The only place we see any lasting negative impact is in near-term Fed Funds Futures, where CPI has further tipped the scales in favor of a 25bp rate cut next week. So why aren't other bonds suffering? It all goes back to the thesis that the overall pace of rate cuts matters more than the size of the first one.



To show that this isn't merely a phenomenon of bonds versus Fed Funds Futures, consider longer term futures contracts. For example, Even the June 2025 contract is showing a return to pre-data levels. In other words, it's all about the pace of rate cuts and not the size of the first one.

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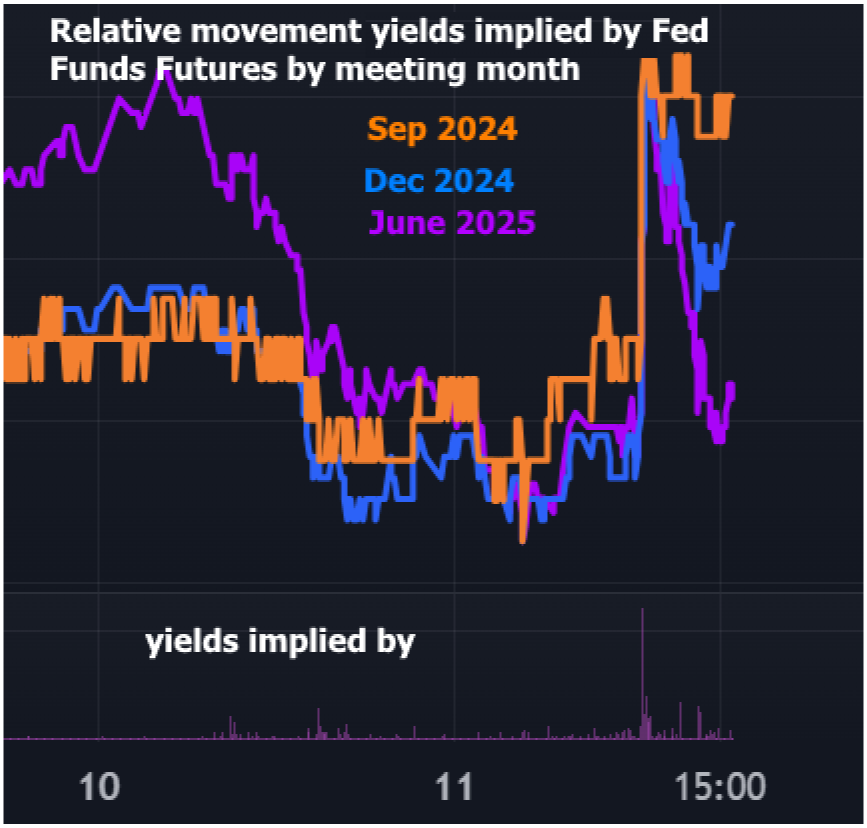
Relative movement yields implied by Fed Funds Futures by meeting month
Sep 2024
Dec 2024
June 2025
yields implied by
10
11
15:00