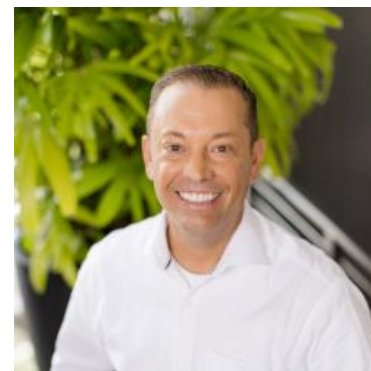


MBS & TREASURY MARKETS

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The Day Ahead: Why Isn't PPI Helping Bonds This Morning?

The Producer Price Index (PPI) may not be nearly as much of a market mover as the Consumer Price Index (CPI), but it has proven capable of producing logical reactions in the past when it's come in much higher or lower than expected. Today's installment was much lower than expected--something that should be good for bonds. While there was a brief, initial rally, it was quickly erased and bonds returned to relatively unchanged levels.



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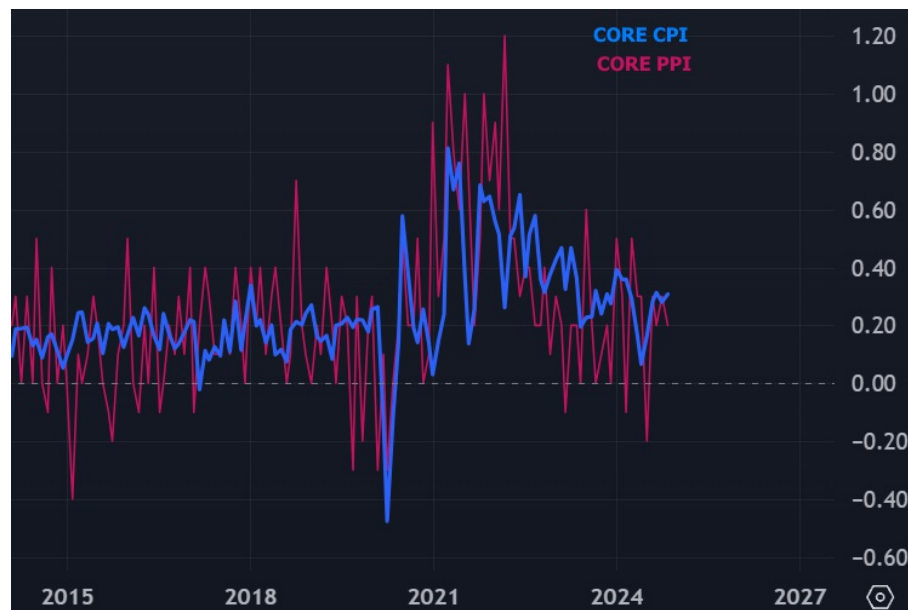
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The easiest explanation is that the market is preoccupied with CPI and there's limited directional correlation on any given individual month.



The deeper explanation is that the PPI components that flow through to consumer inflation didn't miss the market as much as the headline suggested.

(Bloomberg) -- Following are components in the December producer prices report that feed into the US personal consumption expenditures price index, which is an inflation indicator followed closely by the Federal Reserve.

	Dec.	Nov.	Oct.	Sept.	Aug.	Dec.
	2024	2024	2024	2024	2024	2024
	MoM%					YoY%
PPI total final demand	0.2%	0.4%	0.2%	0.2%	0.3%	3.3%
PPI Components for Personal Consumption Expenditure						
Airline passenger services	7.2%	-1.6%	2.4%	1.1%	-0.8%	5.0%
Portfolio management	0.2%	-0.6%	3.1%	0.7%	0.0%	18.6%
Physician care	0.2%	0.0%	0.6%	0.0%	0.0%	2.2%
Home health, hospice care	0.2%	0.1%	0.4%	0.0%	0.0%	1.3%
Hospital outpatient care	0.0%	0.0%	0.4%	0.0%	0.7%	3.7%
Hospital inpatient care	0.0%	0.2%	-0.1%	0.3%	0.3%	2.9%
Nursing home care	0.4%	0.1%	0.8%	0.5%	0.3%	2.0%

SOURCE: Bureau of Labor Statistics