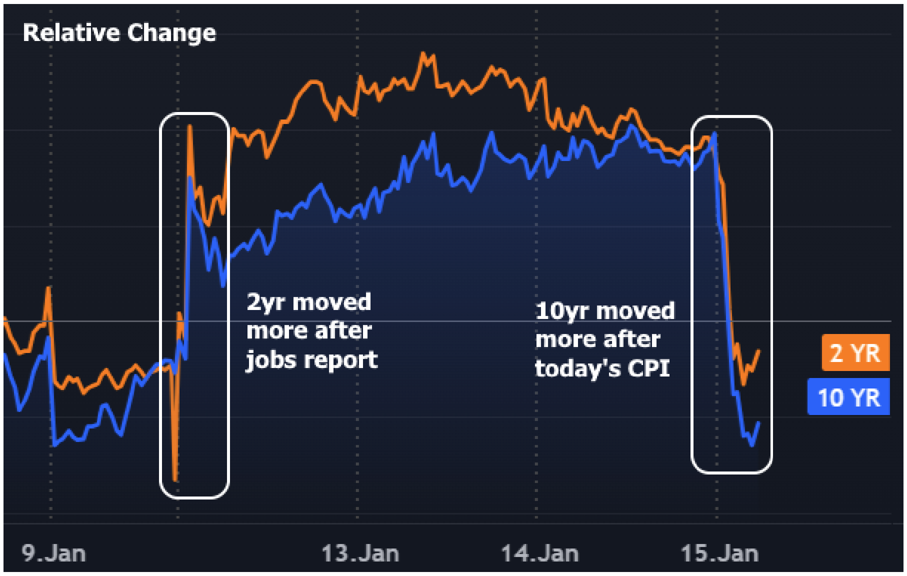
The Day Ahead: If You Needed Proof That Inflation Data is Back in Fashion...

On December 18th, one of the most striking takeaways from Fed Chair Powell's press conference was the shift in the Fed's focus from the labor market to inflation data. Said shift was frequently reinforced in subsequent speeches by other Fed members. Traders were left to decide how much they would shift their own playbooks--something that was especially difficult after last week's big jobs report. Today's CPI was arguably less of a departure from forecasts than the jobs report, but the market reaction has been much more pronounced (in a good way).

By focusing solely on 10yr yields, the reaction is just a bit overstated, relative to the jobs report. If we bring 2yr Treasuries into the mix, we can see that some of the discrepancy is due to curve trading. The jobs report did more to push short term rates higher whereas the inflation data is doing more to help longer-term rates move lower.



Tan & Samantha Tunador
VP | Sr Loan Officer Team, Atlantic Coast Mortgage,. LLC
www.TheTunadorGroup.com
P: (703) 919-5875
M: (703) 328-0628
tan@acmllc.com
20365 Exchange Street
Ashburn Virginia 20147
NMLS ID 1166669
NMLS ID 2408374

This isn't as simple as 2yr yields having more in common with Fed rate expectations. Fed Funds Futures have sort of split the difference, with roughly equal reactions to each piece of data.