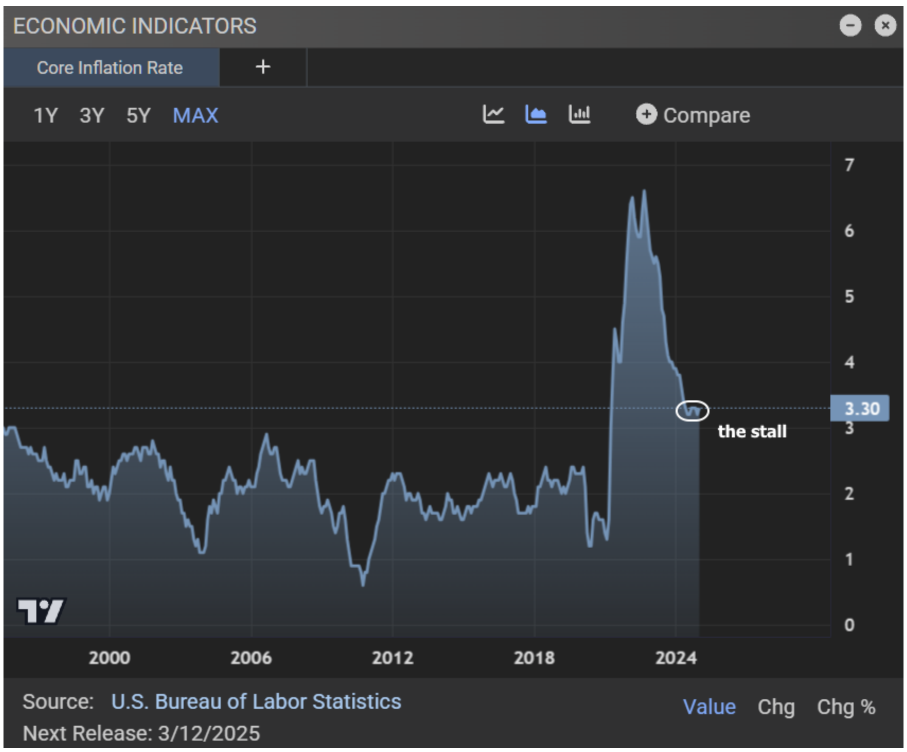
The Day Ahead: Bonds Obliterated (Relatively) by Sharply Higher Inflation

We know that bonds take a majority of their economic data cues from two reports: NFP and CPI. We knew that today's CPI was critically important in commenting on the potential "pause" of inflation's descent back toward target levels. We also suspected, for a variety of reasons, that CPI could be an even bigger market mover than the jobs report. Unfortunately, it was.

Economists expected month over month core inflation to come in at 0.3%. As it happened, it nearly came in at 0.5% (the unrounded number was 0.446%). Used autos, housing, and medical services all played large roles in the surprise. The results keep the annual rate of change stalled out above 3%.



The bond market response was obvious, to say the least.

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Lastly, on the topic of CPI vs the jobs report, the torch has indeed been passed, although either report could cause a bigger reaction than the other if it were far enough from forecast. That just happened to be CPI this time.