

MBS & TREASURY MARKETS

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The Day Ahead: No Major Reaction to PCE Data

It's no secret that we don't view the PCE inflation data as being anywhere remotely as big of a market mover as CPI. Today's trading is adding another notch on that belt, but it's important to understand the backstory. PCE is still extremely important (arguably a more important inflation report than CPI). BUT... it comes out 2 weeks later, AND CPI/PPI enable traders to dial in PCE forecasts with relatively high accuracy. Today's CPI was perfectly in line with expectations (0.3 vs 0.3 at the core level, month over month). On a positive note, the unrounded number was a bit lower than 0.3.

Based on that, you'd expect bonds to at least be holding their ground, and that's exactly what they did at 8:30am, following a brief, initial pop. After that, yields improved at the 9:30am NYSE open, but as stocks have recovered, bonds have dialed back some of the gains. The net effect is that MBS and Treasuries are just barely stronger on the day.



In general, bonds have been much more interested in taking cues from stocks this week, with only a few exceptions. All the highlighted areas below mark the 9:30 NYSE open time frame.



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