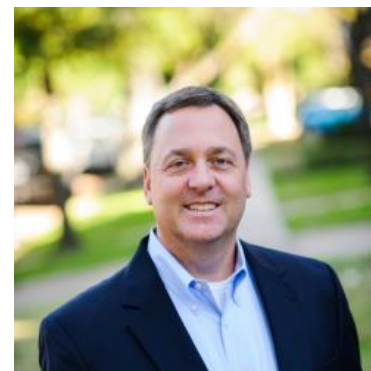


MBS & TREASURY MARKETS

Daily Coverage. Industry Leading Perspective.

The Day Ahead: Why Aren't Bonds Happier About CPI?

Today's CPI came in lower than expected. That would normally help bonds rally, but they didn't seem too eager to do that. One explanation is that the components of CPI that have a bearing on PCE suggest PCE will be higher than previously expected. While we don't usually see PCE move markets as much as CPI, that's because PCE is much easier to forecast after CPI and PPI come out. As far as the Fed is concerned, PCE has the final say when it comes to measuring progress toward 2% inflation. As such, if today's CPI says that PCE (2 weeks from now) looks like it will be higher than previously expected, the implication is for bond market weakness as opposed to strength.



Paul E Smith

Owner, Main Street
Mortgage Company

www.texasmainstreet.com

P: (713) 528-1245

M: (713) 480-7385

3100 Richmond Ave
Houston TX 77098

MSMC NMLS 296814

Paul E Smith NMLS 193580

MAIN STREET
MORTGAGE COMPANY