

MBS & TREASURY MARKETS

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A message from Randy Vance:

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UPDATE: Big Drop in Producer Prices. Mixed Reaction Due to PCE Implications

- Monthly Core PPI
 - -0.1 vs 0.3 f'cast, 0.5 prev
- Yearly Core PPI
 - 3.4 vs 3.5 f'cast, 3.8 prev
- Jobless Claims
 - 220k vs 225k f'cast, 222 prev

While a -0.1 vs 0.3 result in core PPI is a very big miss, and while that would seem like it should be a no-brainer for a bond rally, and while bonds did indeed rally in the first minute following the data, bonds are no longer rallying.

The reason is the same as it has been to explain CPI/PPI reactions over the past few months: their implications for the broader PCE Price Index that comes out in 2 weeks.

Every single category that PPI shares with PCE was in positive territory this month (i.e. higher inflation). Compare the leftmost column to the Jan 2025 column below.

	Feb.	Jan.	Dec.	Nov.	Oct.	Feb.
	2025	2025	2024	2024	2024	2025
	MoM%					YoY%
PPI total final demand	0.0%	0.6%	0.5%	0.1%	0.3%	3.2%
PPI Components for Personal Consumption Expenditure						
Airline passenger services	0.0%	0.1%	5.0%	-0.5%	1.9%	2.4%
Portfolio management	0.5%	0.5%	1.8%	-0.7%	2.8%	13.4%
Physician care	0.1%	-0.4%	0.2%	0.1%	0.5%	1.8%
Home health, hospice care	0.3%	-0.2%	0.2%	-0.2%	0.6%	4.2%
Hospital outpatient care	0.3%	-0.7%	0.6%	0.3%	0.4%	2.5%
Hospital inpatient care	1.0%	-0.5%	0.0%	0.2%	-0.1%	2.6%
Nursing home care	0.1%	0.4%	0.9%	0.1%	0.6%	2.7%

SOURCE: Bureau of Labor Statistics

Bonds aren't panicking, but they are losing a bit of ground. 10yr yields are up 2.8bps at 4.339 and MBS are down just under an eighth of a point.