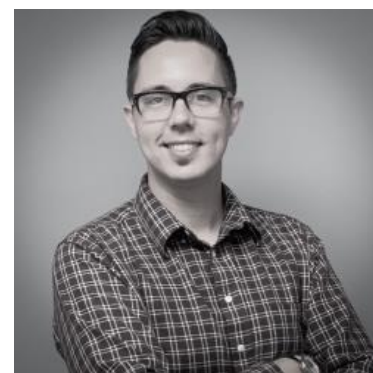


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The Day Ahead: PPI Reaction Playing Out Better Than CPI So Far

Tuesday's CPI reaction was frustrating. Bonds rallied for an hour only to sell off for the rest of the day starting at 9:30am. Things are off to a different sort of start today. PPI was a bit lower than expected and didn't immediately suggest a major tariff impact in the same way as some of the categories in yesterday's CPI. Imports themselves are not included in PPI, but if a domestic producer raises prices on something with tariffed components, tariffs would effectively be responsible for the increase unless the producer had a separate reason to raise prices. Bottom line: it was easy to see tariffs spilling over to several CPI categories yesterday, thus the reversal, but the worst offenders in today's PPI are distinctly domestic. This likely the reason we haven't seen a similar reversal of the initial headline reaction (which was a modest rally).



Mike Hardy

Mortgage Advisor

M: (562) 370-0544

6621 E. Pacific Coast Highway
Long Beach CA 90803

NMLS #1175689

DRE #01326046

