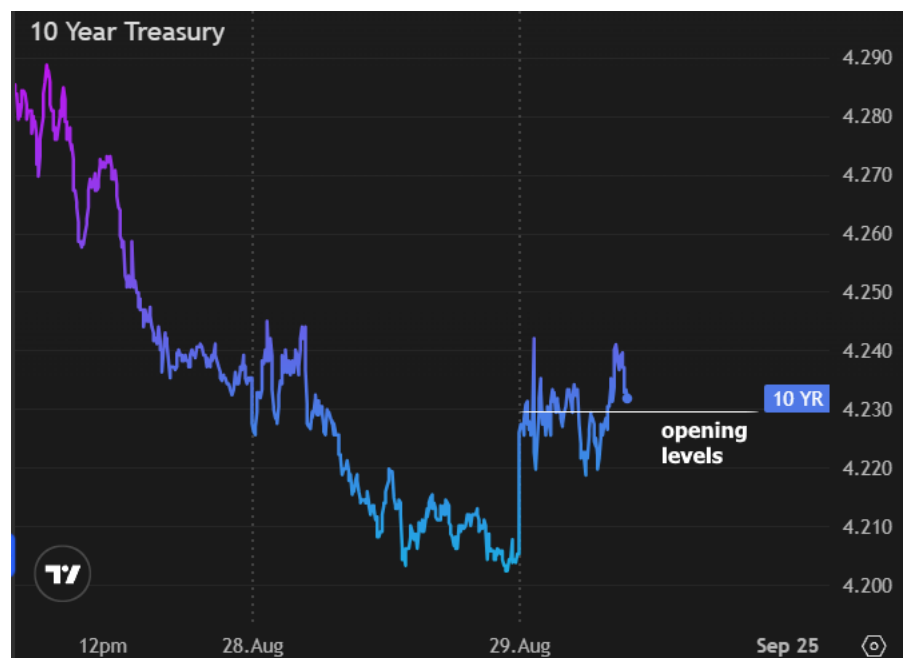


MBS & TREASURY MARKETS

Daily Coverage. Industry Leading Perspective.

The Day Ahead: PCE Inflation Offers No Surprises

There are two big picture inflation reports in US that address consumer prices: CPI and PCE. Of the two, PCE is broader and more highly regarded by policymakers. The downside is that it comes out about 2 weeks later for the same month of price data. PCE is also easier to forecast due to other inflation data being out earlier in the month. As such, it's less common to see big deviations from forecasts and today was no exception with all monthly and annual numbers perfectly hitting expectations. Unsurprisingly, bonds haven't really changed from opening levels.



Nick Hunter

President, Owner, River City Mortgage, LLC

www.rchomeloans.com



One of the only interesting developments (debatably, perhaps) is that the "supercore" reading (core services inflation excluding housing) was 0.1% lower in PCE versus the figures reported by bloomberg that were extrapolated from CPI 2 weeks ago. Supercore is still slightly elevated and has been trending higher, but 0.390 is a lot better than 0.481 (reported with CPI) when it comes to inflation staying out of the way of a Fed rate cut.

PCE services excluding energy and housing (supercore)

