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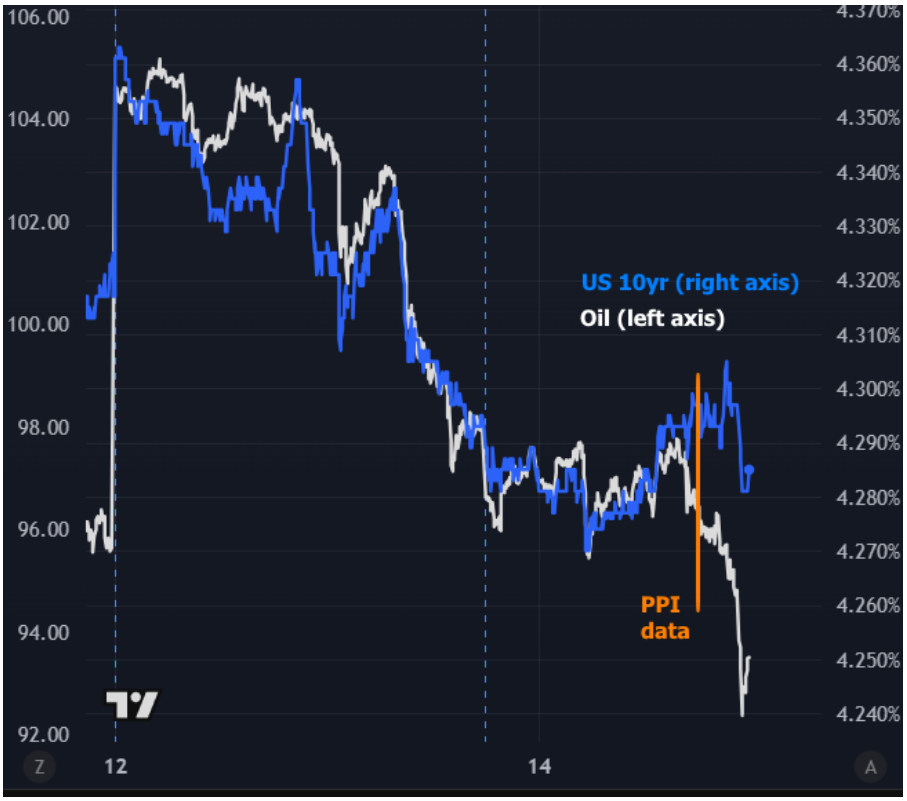
The Day Ahead: Why Aren't Bonds Responding to a Big Beat in Inflation Data?

Bonds were fairly flat overnight and haven't moved much so far in the domestic session. More importantly, until 7am, bonds were slightly weaker even as oil prices have fallen and stocks have rallied. What gives?! If PPI had come in much higher than expected, it would be easier to explain. But despite the 0.1 vs 0.5 reading for core monthly numbers, the PPI components that track with the more important PCE inflation metrics were actually a bit higher. In addition, the ill effects of fuel prices have already wreaked havoc on March inflation data. If we assume (and we should) that the full effects of higher fuel prices were not yet reflected in March prices at the time of the PPI data collection, bonds have to continue treading cautiously over the inflation outlook in coming months. Away from the data and war headlines, there are other considerations ranging from new estimates of the cost to fund the war and new warnings about forced selling of leveraged bond holdings if rates start rising again.



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