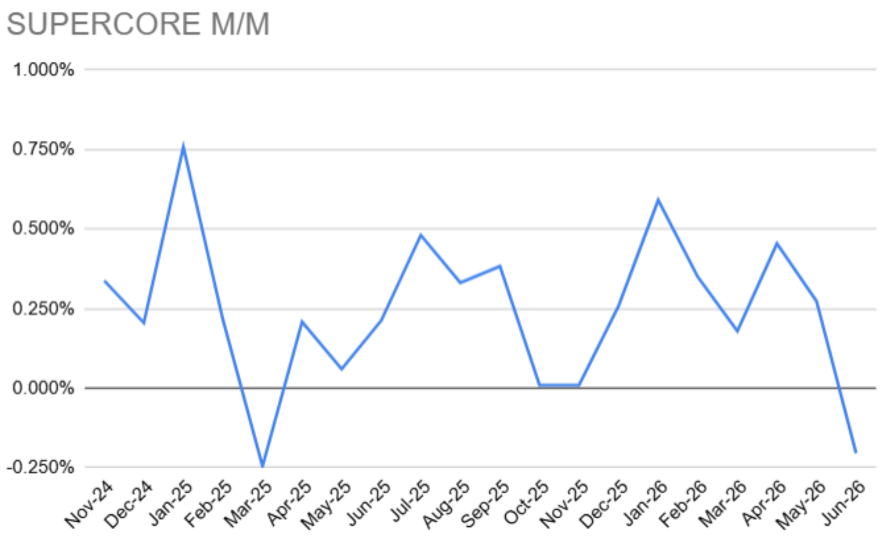
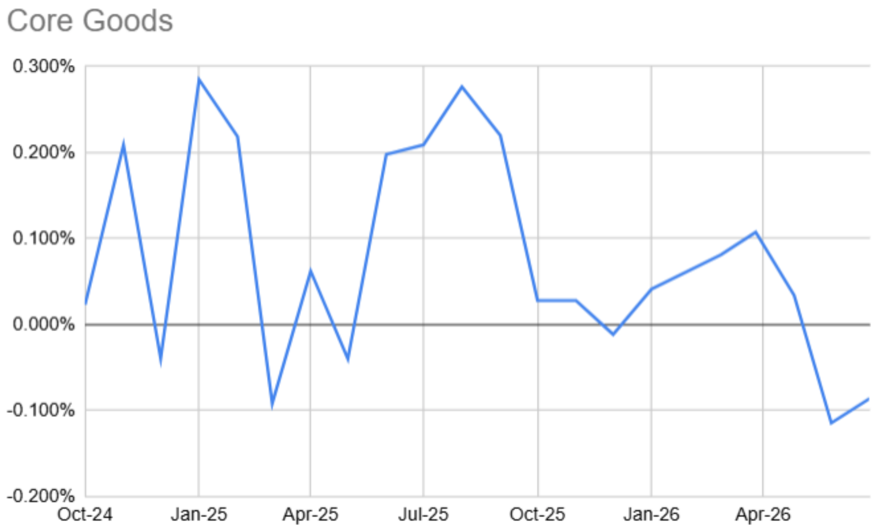
The Day Ahead: Strong Start After Sharply Lower CPI

The Consumer Price Index came in FAR below expectations with a core reading of 0.0 vs 0.2 forecasts. In unrounded terms, it was -0.17%. Headline CPI was more sharply negative than expected at -0.4 vs a -0.1 forecast. Supercore (which excludes housing) was down -0.2 which is the first negative reading in over a year. Core goods also remained in negative territory for a second straight month. Bonds rallied instantly, led by the short end of the curve (more closely tied to Fed rate expectations). But even 10yr yields are down over 5bps and MBS are up more than 3/8ths of a point.





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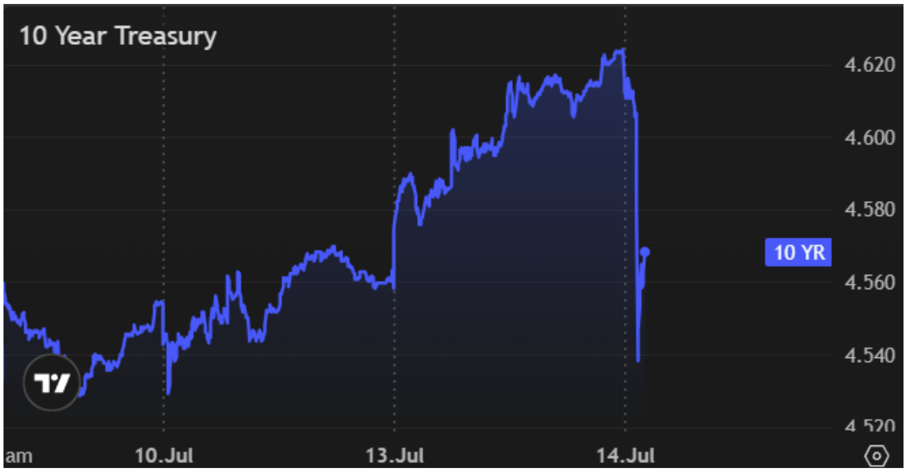
10 Year Treasury
4.620
4.600
4.580
4.560
4.540
4.520
10 YR
am
10.Jul
13.Jul
14.Jul


Expected Fed Funds Rate
December Fed Meeting
per Fed Funds Futures
4.040
4.020
4.000
3.980
3.960
3.940
3.920
3.900
3.880
Jul
3
8
10
14
16