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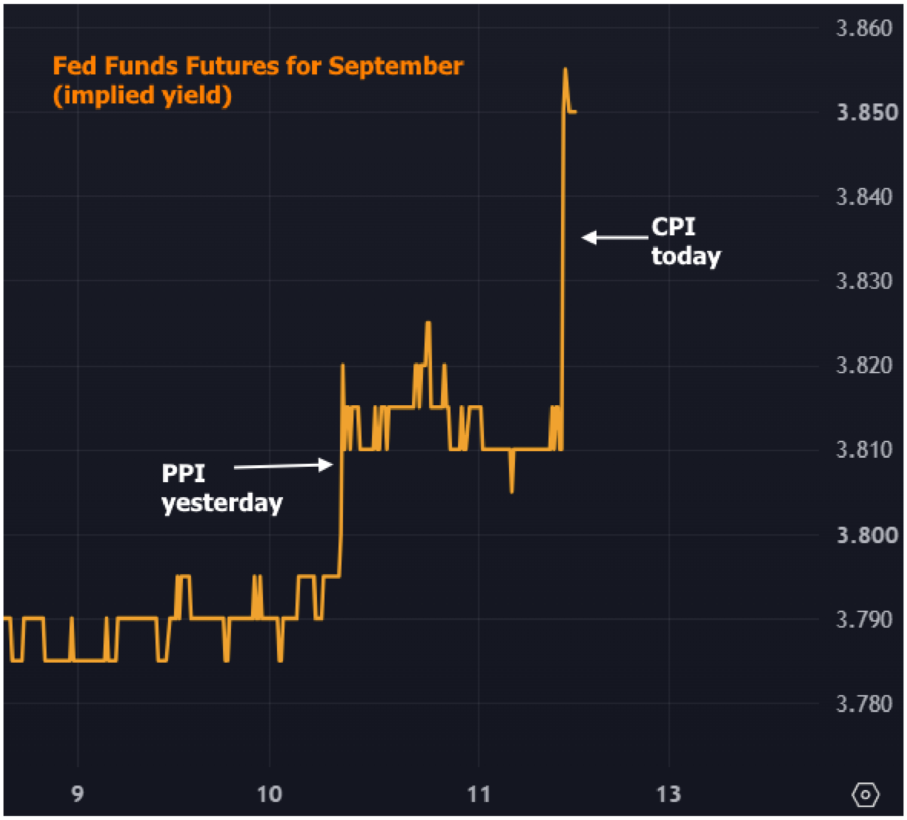
The Day Ahead: Paradoxical Rally in Bonds Thanks to Higher Fed Hike Odds

We've been saying for a while that the longer end of the bond market really wants to see the Fed get serious about fighting inflation. This is why yields spiked on July 29th when the Fed held rates steady and Warsh said he'd let the bond market do the heavy lifting. Now today, we have back-to-back inflation reports that resulted in Fed Funds Futures pricing in a 90% chance of a hike at next week's meeting. Fed Funds Futures are the only thing that's unequivocally selling off this morning. 2yr Treasuries (heavily impacted by Fed expectations) are mixed, but the longer end of the curve is now rallying thanks to the expectation of the rate hike and the hope that it pushes back against inflation.



it also doesn't hurt that oil prices turned a corner overnight.