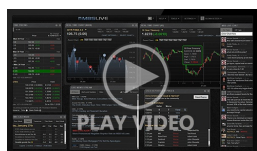


Another Paradoxical Reaction to an Inflation Report

Market Summary: Thursday, March 13, 2025 - 5:13AM

For the 2nd month in a row, the market's reaction to a CPI/PPI report ended up being less about the report itself and more about its implications for the more highly regarded PCE inflation data. While we have to wait 2 weeks for official word on PCE, the CPI/PPI combination goes a long way toward revealing the outcome. In today's case, CPI suggested higher PCE inflation, so bonds ended up selling off, albeit modestly, despite core CPI coming in lower than expected. Thursday's PPI once again has the opportunity to punch above its typical weight for the same reason.

Latest Video Analysis



Another Paradoxical Reaction to an Inflation Report

MBS & Treasury Markets

UMBS 5.0	97.87	+0.08	10YR	4.269%	-0.042%	3/13/2025 5:00PM EST
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Why Aren't Bonds Happier About CPI?

Today's CPI came in lower than expected. That would normally help bonds rally, but they didn't seem too eager to do that. One explanation is that the components of CPI that have a bearing on PCE suggest PCE will be higher than previously expected. While we don't usually see PCE move markets as much as CPI, that's because PCE is much easier to forecast after CPI and PPI come out. As far as the Fed is concerned, PCE has the final say when it comes to measuring progress toward 2% inflation. As such, if today's CPI says that PCE (2 weeks from now) looks like it will be higher than previously expected, the implication is for bond market weakness as opposed to strength.

UPDATE: Mixed Reaction After CPI Comes in Lower

ALERT: Negative Reprice Risk Increasing



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Today's Mortgage Rates

30YR Fixed	6.78%	-0.04%	15YR Fixed	6.23%	-0.01%	3/13/2025
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Highest Mortgage Rates in Just Over 2 Weeks

have moved up over the past 2 days, ultimately hitting the highest levels since February 24th today. While that sounds somewhat unpleasant or unfortunate, context paints a softer picture. Specifically, since February 25th, the average top tier 30yr fixed rate has been in a fairly narrow 0.12% range centered on 6.75%. That makes the past 2 weeks the best 2 weeks we've seen since early October.

Today's contribution ended up being surprisingly uneventful. Why surprising? Markets were eagerly anticipating the Consumer Price Index (CPI) release this morning. As is always the case these days, CPI stands a good chance to send rates higher or lower at a faster pace than most other economic reports.

Today's CPI showed softer than expected inflation for February and an upward revision for January. Some of the underlying components suggested future inflation readings would be slightly higher than expected. Those counterpoints prevented rates from moving lower despite the apparent victory in the headlines.

Looking ahead, tomorrow's Producer Price Index (PPI) is a similar report, but focused on wholesale inflation as opposed to consumer inflation. It, too, can have a bearing on the same future inflation data as CPI. Last month, PPI actually had a bigger impact, and it helped push rates back down after CPI pushed them higher. While this certainly doesn't mean history will repeat itself, it illustrates the possibility of disagreement among these reports.

Economic Calendar

Last Week | This Week | Next Week

Time	Event	Actual	Forecast	Prior
Thursday, Mar 13				
8:30AM	Feb Producer Prices (%)	0%	0.3%	0.4%
8:30AM	Mar/01 Continued Claims (ml)	1870K	1900K	1897K
8:30AM	Feb Core Producer Prices YY (%) ★	3.4%	3.5%	3.6%
8:30AM	Feb Core Producer Prices MM (%) ★	-0.1%	0.3%	0.3%
8:30AM	Mar/08 Jobless Claims (k) ★	220K	225K	221K
1:00PM	30-Year Bond Auction ☆	4.623%		4.748%
Friday, Mar 14				
10:00AM	Mar Consumer Sentiment (ip) ☆	57.9	63.1	64.7
10:00AM	Mar Sentiment: 5y Inflation (%) ☆	3.9%		3.5%
10:00AM	Mar U Mich conditions ☆	63.5	65	65.7
10:00AM	Mar Sentiment: 1y Inflation (%) ☆	4.9%		4.3%

Recent Housing News

- [Big Bounce in Refi Demand Thanks to Lower Rates](#)
- [Why Didn't Refi Demand Spike This Week?](#)
- [New Home Sales Drop 10.5%. Should You Care?](#)

Read My Latest Newsletter

The Secret Reason That Rates Bounced This Week

There's a lot for financial markets to digest at the moment. Over the past few weeks, the net effect of that digestion has been good for bonds/rates and bad for stocks. But the prevailing correlation broke down this week and few people in the U.S. truly understand why. That's forgivable, considering there has been a lot to react to in terms of economic data and fiscal updates. Monday's weaker&n...

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