

What's Up With The Paradoxical CPI Reaction?

Market Summary: Tuesday, July 15, 2025 - 4:31PM

Heading into today's data, we knew there was a possibility of two separate reactions--one for the top line CPI numbers and one for a deeper look at the internal components. Those internals show that tariffs are having an impact even though it was a smaller impact than many forecasters were expecting. Bonds didn't seem to care at first. When a new glut of trades came online at the 9:30am NYSE open, that changed. Both stocks and bonds sold off sharply starting at 9:30am and this move looks far more convincing that the initial rally.

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MBS & Treasury Markets

UMBS 5.5	98.92	-0.24	10YR	4.484%	+0.049%	7/15/2025 5:00PM EST
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Selling Continues; Reprice Risk Picking Up

Lenders who priced after the initial selling at 9:30am were dealing with MBS that were roughly unchanged on the day. Since then, we've fallen another 6 ticks (19)--more than enough for a jumpier lender to consider a negative reprice.

10yr yields are up 4.9bps at 4.484.

- ALERT: CPI Gains Erased Quickly At 9:30am NYSE Open
- MBS MORNING: Tariffs Show Up in CPI, But Not Enough to Hurt

Today's Mortgage Rates

30YR Fixed 6.85% +0.02%

15YR Fixed 6.07% +0.04%

7/15/2025

Mortgage Rates Move Higher Despite Decent Inflation Reading

are based on bonds and bonds don't like inflation. When inflation reports are higher than the market expected, rates tend to rise, all other things being equal.

But today's inflation numbers were a bit lower than the median forecast. This scenario is typically more likely to push rates lower. Indeed, in the first hour following today's Consumer Price Index (CPI) release, bond trading implied lower rates.

Then things changed.

Recall our closing reminder from yesterday which qualified the conventional wisdom reactions, saying "even then, traders will look into the underlying composition of the number and assess whether changes were driven by tariff-dependent categories. For example, if CPI comes in at 0.2, but it was due to a big shift in rental costs or health care, rates could still rise if tariff-dependent categories showed higher inflation."

This is essentially what happened. The "shelter" component of CPI (the one that measures housing costs and that has been stubborn in moving down as quickly as hoped) fell to its lowest monthly level since inflation first began soaring in 2021. This is great news for inflation in general and it contributed to the initial market reaction.

Then the "yeah buts" showed up. At issue is the fact that tariffs are increasingly having an impact on certain CPI categories. Granted, it's not enough to raise the overall price index above forecast levels, but the market decided it was enough to justify the Fed's "wait and see" approach on rate cuts. Notably, today's reaction in terms of the Fed rate cut outlook was far milder than the reaction after the jobs report 2 weeks ago, but this one is perhaps more frustrating because the headline inflation numbers suggested the opposite move for rates.

Time	Event	Actual	Forecast	Prior
Tuesday, Jul 15				
8:30AM	Jul NY Fed Manufacturing ☆	5.50	-9	-16.00
8:30AM	Jun y/y Headline CPI (%) ☆	2.7%	2.7%	2.4%
8:30AM	Jun m/m Headline CPI (%) ★	0.3%	0.3%	0.1%
8:30AM	Jun y/y CORE CPI (%) ★★	2.9%	3%	2.8%
8:30AM	Jun m/m CORE CPI (%) ★★★	0.2%	0.3%	0.1%
9:15AM	Fed Bowman Speech ☆			
12:00PM	NOPA Crush Report (%)			
12:45PM	Fed Barr Speech ☆			
2:45PM	Fed Collins Speech ☆			
7:45PM	Fed Logan Speech ☆			
Wednesday, Jul 16				
12:00AM	Roll Date - UMBS 15YR, Ginnie Mae 15YR			
7:00AM	Jul/11 MBA Refi Index	767.6		829.3
7:00AM	Jul/11 MBA Purchase Index	159.6		180.9
8:30AM	Jun Producer Prices (%)	0%	0.2%	0.1%
8:30AM	Jun Core Producer Prices MM (%) ★	0.0%	0.2%	0.1%
8:30AM	Jun Core Producer Prices YY (%) ★	2.6%	2.7%	3%
9:15AM	Jun Industrial Production (%) ☆	0.3%	0.1%	-0.2%
9:15AM	Fed Hammack Speech ☆			
10:00AM	Fed Barr Speech ☆			
10:30AM	Jul/11 Crude Oil Inventory (ml)		-1.8M	7.07M
2:00PM	Fed Beige Book			
6:30PM	Fed Williams Speech ☆			

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- Big Jump in Mortgage Demand, But Rates Are Already Rising Again
- Refis Pick Up Steam as Rate Relief Returns
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After Holiday Hangover, Rates Are Ready to Get Serious About Inflation Data

Mortgage rates partied hard for most of June and into the middle of last week--right up until stronger economic data killed the vibe. The resulting bounce in rates carried momentum through to the beginning of this week, but from there on out, things were broadly sideways. That's not too surprising considering the lack of virtually any major economic data this week. Such data is one of the...

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