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ALERT: Why Are We Red?! It's CPI!

Consumer Price Index (CPI)

- +0.1 vs +0.2 forecast
- CORE CPI (more important) +0.3 vs +0.2 forecast and +0.1 previously
- CORE y/y CPI +1.8 vs +1.7 forecast and +1.7 previously

Retail Sales

- +0.4 vs +0.4 forecast

CPI is the biggest market mover we have right now in terms of econ data. The uptick in core inflation (both monthly and year-over-year) is the sole source of weakness just now. Core year-over-year numbers had been running at a steady 1.7% for several months before ticking up to 1.8% in October (reported in November) and then back down to 1.7% again in Nov (reported in Dec).

With today's return to 1.8%, investors are once again considering a broad-based, sustainable uptick in inflation. Such an uptick would solidify the Fed's rate hike outlook--essentially guaranteeing higher rates in the short term (at least until the inverted yield curve brings about another recession).

Today's reaction is logical: a quick spike in 10yr yields from 2.54 to 2.58%. In other words, CPI is the new NFP when it comes to the month's biggest economic data market mover (as discussed in the [Day Ahead](#)). Fannie 3.5 MBS are down a quick quarter point to 101-25. Bottom line, we knew a deviation from the forecast in CPI would be big news. Unfortunately, the deviation wasn't in a friendly direction for bonds.



MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.61	+0.22
MBS GNMA 6.0	100.74	+0.21
10 YR Treasury	4.2818	-0.0784
30 YR Treasury	4.4857	-0.0440

Pricing as of: 7/5 5:59PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.03%	-0.05	0.00
15 Yr. Fixed	6.44%	-0.01	0.00
30 Yr. FHA	6.50%	-0.05	0.00
30 Yr. Jumbo	7.24%	-0.01	0.00
5/1 ARM	7.05%	-0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.03%	+0.09	0.62
15 Yr. Fixed	6.56%	+0.09	0.54
30 Yr. FHA	6.90%	+0.11	0.95
30 Yr. Jumbo	7.11%	-0.01	0.50
5/1 ARM	6.38%	+0.11	0.54

Rates as of: 7/5

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