Bond Yields Rise as Consumer Inflation Creeps Higher

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The U.S. Consumer Price Index (CPI) climbed +0.5% in January, following a revised +0.1% rise in December. January's increase equaled the median forecast, as well as the biggest monthly gain since June. Shelter costs (+0.7%), which make up roughly a third of the overall index, were the biggest contributor last month, while energy (+2.0%) and food (+0.5%) also made significant contributions to the headline.

Within the food category, egg prices surged another +8.5% after an +11% December rise, while citrus fruits climbed +2.8% after falling -0.7% in the previous month. Within the energy category, gasoline prices rose +2.4% after a -7.0% December drop.

Used car prices (-1.9%) were unexpectedly lower, while new vehicle prices rose a modest +0.2%. Notable cooling took place in medical care services (-0.7%), but all other service-related categories in the index were frustratingly higher during the month.

Core CPI, which excludes food and energy prices, also matched the median forecast with a +0.4% January increase. On a year-over-year basis, headline CPI retreated from +6.5% to +6.4%, while the annual core pace slipped from +5.7% to +5.6%. The fact that year-over-year headline inflation is the lowest since October 2021 offers little solace when it's been above 6% for 16 straight months.

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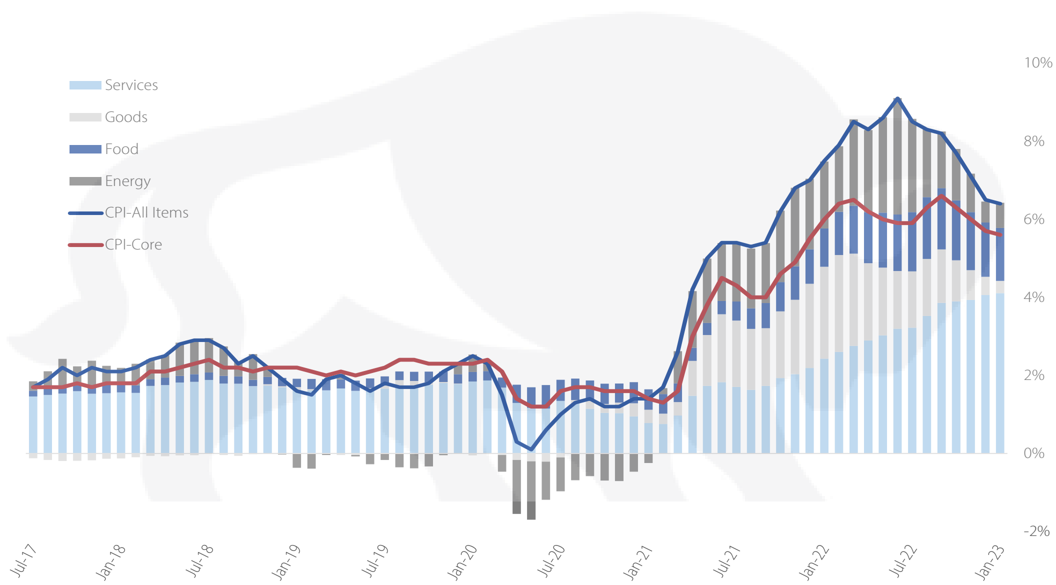
Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

The fact that year-over-year headline inflation is the lowest since October 2021 offers little solace when it's been above 6% for 16 straight months.

There were very few signs of cooling inflation in January. The significant declines in used car prices, medical care and airfares (which helped keep January from being an uglier number) can't be counted on for continued moderation.

Bonds are selling off in early trading as investors brace for a more aggressive Fed response in the coming months. Although a 50 bp move is unlikely at the next FOMC meeting on March 22, three 25 bp increases are mostly priced-in between now and the July meeting.

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The Fed recognizes that the key to corralling inflation is to freeze economic growth, which implies more tightening. Powell told us there would be bumps along the way to achieving price stability. Hopefully, January is just one of those bumps.

Market Indications as of 9:03 A.M. Central Time

DOW	Up 14 to 34,259 (HIGH: 36,800)
NASDAQ	Up 77 to 11,969 (HIGH: 16,057)
S&P 500	Down -4 to 4,134 (HIGH: 4,797)
1-Yr T-bill	current yield 4.95%; opening yield 4.86%
2-Yr T-note	current yield 4.58%; opening yield 4.52%
3-Yr T-note	current yield 4.27%; opening yield 4.20%
5-Yr T-note	current yield 3.96%; opening yield 3.91%
10-Yr T-note	current yield 3.72%; opening yield 3.71%
30-Yr T-bond	current yield 3.76%; opening yield 3.78%