

MBS & TREASURY MARKETS

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MBS Recap: Bonds Rattled By Surprisingly Big Beat in Spending Data



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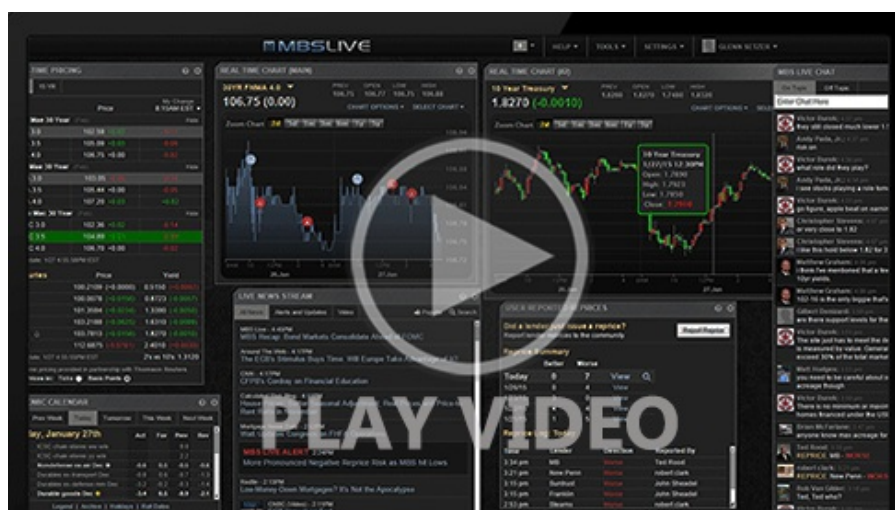
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Bonds Rattled By Surprisingly Big Beat in Spending Data

MBS Recap | Matthew Graham | 4:01 PM

Today's big surprise was the PCE price index component of Q1 GDP. GDP itself was weaker than expected, but even that was explained away by components not related to private domestic consumption. Focusing on the latter makes Q1 look just as strong as any of the past few quarters. PCE did the most damage for two reasons. It was MUCH higher than expected (3.7 vs 3.4) and that implies tomorrow's PCE data (a monthly version of today's quarterly report) is also at risk of coming in higher than expected. This "sneak peek" effect is only a concern once per quarter with the "advance" release of GDP.



Alert

8:38 AM Bonds Losing Ground After 8:30am Data, Mainly PCE Prices

MBS Morning

11:37 AM Quarterly PCE Data Causing Concern Over Tomorrow's Monthly Numbers

Econ Data / Events

- ○ Jobless Claims
 - 207k vs 214k f'cast, 212k prev
- Continued Claims
 - 1781k s 1814k f'cast
- GDP
 - 1.6 vs 2.5 f'cast, 3.4 prev
- Q1 PCE Prices
 - 3.7 vs 3.4 f'cast
- Wholesale Inventories
 - -0.4 v s +0.2 f'cast

Market Movement Recap

- 08:41 AM Bonds losing ground quickly after 8:30am data. MBS down a quarter point. 10yr up almost 5bps at 4.691.
- 11:07 AM Weakest levels at 9:30am and pushing back slightly since then. 10yr up 6.4bps at 4.706. MBS down 10 ticks (.31).
- 01:28 PM No reaction to 7yr Treasury auction. 10yr up 6.1bps at 4.703. MBS down 11 ticks (.34)
- 03:35 PM Increasingly flat at the same old levels. 10yr up 6bps at 4.702 and MBS down 10 ticks (.31).

Lock / Float Considerations

Thursday's PCE surprise means that risk/reward are suddenly elevated heading into Friday. Markets are

- Thursday's PCE surprise means that risk/reward are suddenly elevated heading into Friday. Markets are expecting a higher monthly PCE number now, so an as-expected result would likely cause a big improvement whereas an even bigger number would likely cause additional heavy selling. It's impossible to know exactly where the new consensus is, but it's a given that the potential for big movement in either direction is much higher than it was yesterday.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.80
 - o 4.65
- Floor/Resistance
 - o 4.23
 - o 4.32
 - o 4.37
 - o 4.49
 - o 4.57

MBS & Treasury Markets



MBS

30YR UMBS 6.0
 30YR UMBS 6.5
 30YR GNMA 6.0
 15YR UMBS-15 5.0

US Treasuries

10 YR	4.702%	+0.060%
2 YR	4.995%	+0.063%
30 YR	4.813%	+0.042%

5 YR

4.715%

+0.059%

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