

MBS & TREASURY MARKETS

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MBS Recap: Decent Recovery After Friday's PCE Numbers Clarify Thursday's PCE Numbers



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Decent Recovery After Friday's PCE Numbers Clarify Thursday's PCE Numbers

MBS Recap | Matthew Graham | 5:20 PM

Thursday's quarterly PCE numbers were much higher than expected. That meant an increased risk that Friday's monthly numbers would follow suit. While today's PCE was higher than expected in places, the important month-over-month core PCE was in line with expectations (but only because last month was revised higher). In short, inflation is still higher than the Fed wants it and higher than the market expected, but not quite as high as yesterday's report suggested--at least not for the month of March (Jan and Feb, however, were even higher than the market previously traded). There was a moderately good rally after the data and then a sideways grind in the PM hours with yields remaining higher than they were before all this fun began on Thursday morning.





Watch the Video

Update

8:39 AM Core PCE Surprises By Sticking With Consensus

MBS Morning

12:25 PM Deep Dive on Thursday and Friday's PCE Discrepancy and Market Reaction

Econ Data / Events

- ○ Monthly Core PCE
 - 0.3 vs 0.3 f'cast, 0.3 prev
- Annual Core PCE
 - 2.8 vs 2.6 f'cast, 2.8 prev

Market Movement Recap

- 09:00 AM A hair stronger overnight with additional gains after PCE data. MBS up 6 ticks (.19) and 10yr down 4.5bps at 4.66.
- 11:08 AM Best levels of the day. MBS up 9 ticks (.28) and 10yr down 4.1bps at 4.662.
- 01:53 PM Off the best levels, but very calm trading. MBS up a quarter point. 10yr down 3.1bps at 4.673
- 05:16 PM Out like a sideways little lamb. MBS up 10 ticks (.31). 10yr down 3.9 bps at 4.665

Lock / Float Considerations

- Friday's monthly PCE data defused much (but not all) of the anxiety created by Thursday's quarterly PCE reading. Taken together, the past two days suggest the bond market is at the right levels, feeling defensive about persistent inflation, as it heads into the coming week's big ticket data and events. Those events (Fed, Treasury issuance, jobs report) could result in a reasonably big move even before,

but the biggest volatility risk/opportunity is CPI on May 15.

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 | 4.666% | -0.038% |
| 2 YR | 4.993% | -0.004% |
| 30 YR | 4.776% | -0.038% |
| 5 YR | 4.688% | -0.031% |

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