

MBS & TREASURY MARKETS

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MBS Recap: More Ammo For Unfriendly Fed, But Data is at Least as Important



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More Ammo For a Hawkish Fed, But Data is at Least as Important

MBS Recap Matthew Graham | 4:37 PM

Bonds began the day flat but lost ground quickly after ECI came in higher than expected. This is the latest in a string of unfriendly data for the bond market. It proves additional ammo for the Fed to table the notion of rate cuts in 2024--something that Powell had already mentioned in his last speech. Even before this data, there was already zero chance of a rate cut tomorrow. As Powell is likely to remind the market, the prospect of rate changes later this year depends entirely on economic data. On that note, Wednesday's reports may provide just as much of a directional impulse as the market's reaction to the Fed. In addition to JOLTS, ISM, and ADP we'll also get the final details on Treasury's quarterly refunding which may include a buyback announcement. It's not that we necessarily expect that to cause a huge reaction, but it adds another layer of complexity to a very busy day.





Watch the Video

Alert

8:35 AM Losing Ground Quickly After ECI

MBS Morning

12:26 PM More Data, More Inflation, More Weakness in Bonds

Alert

2:45 PM Weakest Levels of The Day; Modest Reprice Risk

Econ Data / Events

- ○ Employment Cost Index
 - 1.2 vs 1.0 f'cast, 0.9 prev
- Case Shiller Home Prices (y/y)
 - 7.3 vs 6.7 f'cast, 6.6 prev
- FHFA Home Prices (y/y)
 - 7.0 vs 6.5 prev
- Chicago PMI
 - 37.9 vs 45.0 f'cast, 41.4 prev
- Consumer Confidence
 - 97.0 vs 104.0 f'cast, 103.1 prev

Market Movement Recap

- 08:35 AM MBS down a quarter point and 10yr up 5bps at 4.66 after ECI data.
- 11:29 AM Very sideways after initial weakness. MBS down 7 ticks (.22). and 10yr up 4.2bps at 4.656
- 02:45 PM 10yr yields are up 6.3 bps at 4.677 and MBS are down just over a quarter point

03:25 PM More losses after the 3pm CME close (month-end selling). 10yr up 7.6bps at 4.689. MBS Down 3/8

04:34 PM Going out near the weakest levels with MBS down almost 3/8ths and 10yr yields up 6.4bps at 4.678

Lock / Float Considerations

- Data dependence is firmly entrenched in the bond market psyche. Traders show rates some love when reports are weak, but they're just as quick to push rates higher when the data suggests it. Tuesday's ECI was an example of the latter. Wednesday is exceptionally busy with multiple econ reports as well as Treasury's refunding announcement and The Fed in the afternoon. Risk takers may continue to eye the generally flat trend over the past 3 weeks, but like the risk averse crowd, they should consider that rates wouldn't hesitate to move higher in response to unfriendly data. High risk, high reward through the end of the week.

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	4.681%	+0.067%
2 YR	5.028%	+0.061%

2 YR	5.039%	+0.061%
30 YR	4.782%	+0.051%
5 YR	4.716%	+0.071%

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