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MBS Recap: Bonds Hold On to NFP-Driven Gains Despite Some Push-Back



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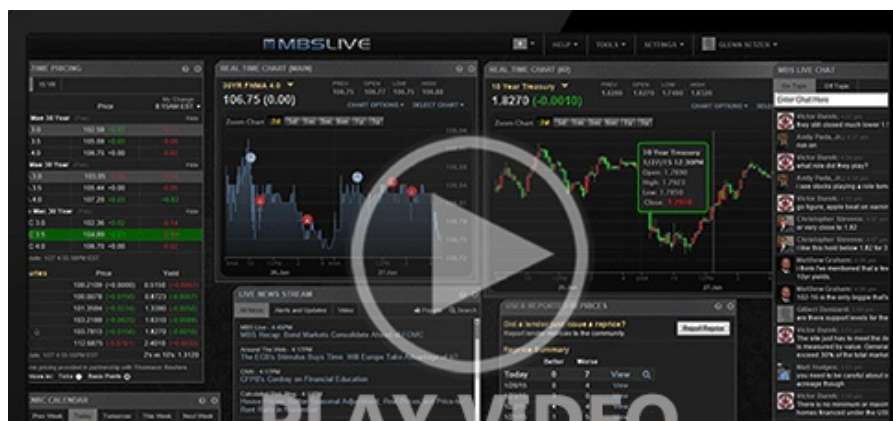
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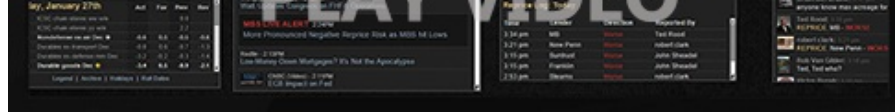
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Bonds Hold On to NFP-Driven Gains Despite Some Push-Back

MBS Recap | Matthew Graham | 5:17 PM

Whether you view it as a perfectly logical reaction to NFP coming in at 175k vs 243k or a bit too much of a rally relative to the motivation, no one could argue that bond yields were destined to drop after seeing this morning's jobs report. But employment data is only worth so much these days. The main event continues to be inflation and we were reminded of that with the 10am ISM Services data. The ISM headline was actually rate friendly, but the inflation component was the bigger mover, and it was not friendly. Bonds lost almost all of their post-NFP gains in response, but managed to level off in the PM hours. Combined with the 2 previous days of green, the net effect is the best closing levels since April 9th.





Watch the Video

Update

8:33 AM Big Rally on Only Modestly Weaker NFP

Alert

10:15 AM Losing Some Ground After ISM Data

MBS Morning

12:46 PM Stronger Start For Bonds After Cooler Jobs Report

Econ Data / Events

- ○ Nonfarm Payrolls
 - 175k vs 243k f'cast, 315k prev
- Unemployment Rate
 - 3.9 vs 3.8 f'cast/prev
- Wages
 - 0.2 vs 0.3 f'cast, 0.3 prev
- ISM Non Manufacturing
 - 49.4 vs 52.0 f'cast, 51.4 prev
- ISM Prices
 - 59.2 vs 55.0 f'cast, 53.4 prev

Market Movement Recap

- 08:43 AM Modestly stronger overnight with additional gains after NFP data. 10yr down 8bps at 4.50, and MBS up 3/8ths
- 10:15 AM losing some ground after ISM. MBS still up 11 ticks (.34) and 10yr down 5.3bps at 4.526
- 02:16 PM gradually bouncing back and now sideways in the middle of the post-NFP range. MBS up 3/8ths. 10yr down 7.3bps at 4.507
- 04:49 PM Very flat since noon with MBS up 11 ticks (.34) and 10yr yields down 8bps at 4.499.

Lock / Float Considerations

- We'd been discussing asymmetric risk associated with the jobs report (i.e. a certain size of "miss" was likely to help rates more than the same size of "beat" would hurt). Granted, we can't know what the sell-off would have looked like if NFP was 68k higher than forecast, but the 68k miss definitely got things moving in the right direction. In the past, we might have called attention to lasting momentum created on weeks where the Fed and NFP team up to send a clear message to rates, but in the current environment, they both must defer to inflation data. For that reason, it makes sense to remain cautious about the staying power of this rally until CPI gives it the green light.

Technical/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	4.512%	-0.067%
2 YR	4.818%	-0.056%
30 YR	4.668%	-0.062%
5 YR	4.498%	-0.075%

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