

MBS & TREASURY MARKETS

Daily Coverage. Industry Leading Perspective.



MBS Recap: Like The Last CPI Never Even Happened



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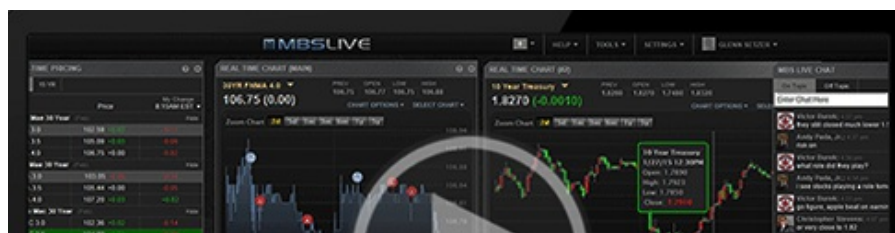


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Like The Last CPI Never Even Happened

MBS Recap Matthew Graham | 3:02 PM

The much anticipated CPI data was perfectly in line with expectations of 0.3% month over month at the core level. That's a far cry from the 0.17% needed to sustain a 2.0% annual inflation target on average, but by avoiding another upside surprise, it was enough for bond traders today. It also surely didn't hurt that Retail Sales (which had added insult to injury last month) came in much lower than forecast (0.0 vs 0.4) with last month's stellar 0.7% reading also being revised down to 0.6. Bonds rallied sharply at first, and then gradually into the afternoon. As if by magic, 10yr yields hit the 3pm close at the same levels seen before the April 10th CPI data... like it never even happened...





Watch the Video

Update

8:36 AM First Move is Stronger After CPI

MBS Morning

10:29 AM CPI Perfectly Matches Expectations, Making For The Lowest Possible Volatility

Econ Data / Events

- ○ Core Month Over Month CPI
 - 0.3 vs 0.3 f'cast, 0.4 prev
- Core Annual CPI
 - 3.6 vs 3.6 f'cast, 3.8 prev
- Retail Sales
 - 0.0 vs 0.4 f'cast, 0.6 prev

Market Movement Recap

- 08:39 AM Stronger after data with 10yr down 6bps at 4.38 and MBS up nearly 3/8ths
- 10:53 AM Remarkably calm in new, stronger range. 10yr down 6.5bps at 4.374. MBS up 10 ticks (.31).
- 01:01 PM Steady gains since 10am. MBS up 14 ticks (.44) and 10yr down 9.4bps at 4.345.
- 03:01 PM Still fairly flat, just off the best levels. MBS up 3/8ths and 10yr yields down 8.8bps at 4.351

Lock / Float Considerations

- There is potentially something to glean from the reasonably strong bond rally despite an "as-expected" CPI. At face value, such things suggest the market had been more defensive than it needed to be and is letting its guard down as a result. If that's the case, it suggests some asymmetric risk in favor of rate rallies (i.e. rate rallies in reaction to friendly data would be bigger than sell-offs in reaction to equally unfriendly data). The cautionary side of the coin is that yields have bounced at an obvious technical level today in 4.34%. Risk-averse clients would defend against a bounce until a bounce is ruled out.

Technical/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.80
 - o 4.65
 - o 4.57
- Floor/Resistance
 - o 4.23
 - o 4.35
 - o 4.49

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	4.351%	-0.088%
2 YR	4.729%	-0.079%
30 YR	4.516%	-0.070%
5 YR	4.351%	-0.101%

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