

MBS & TREASURY MARKETS

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MBS Recap: Massive CPI Rally Cut in Half After Fed Announcement



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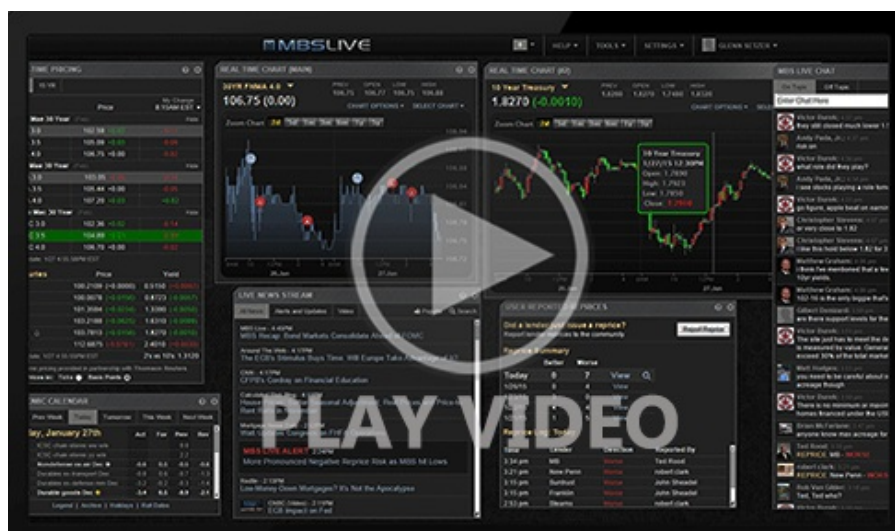
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Massive CPI Rally Cut in Half After Fed Announcement

MBS Recap | Matthew Graham | 4:20 PM

As discussed in the AM commentary, bonds rallied sharply after this morning's CPI data (unrounded core monthly inflation at .163% versus a 0.3% forecast). Those gains held up uneventfully until the Fed festivities began. The most significant item on the Fed agenda was the dot plot at 2pm which showed the median outlook for 2024 rate cuts falling to "one" from "three." Fed Chair Powell offered no dovish reassurances in the press conference, nor was he even very enthusiastic about this one month of data. All of that was to be expected, but markets nonetheless acted like they expected at least a little token of rate rally affection. By 4pm, about half of the CPI gains had been erased, but that's still a solid day in the bigger picture.



Watch the Video

Update

8:33 AM Core CPI 0.2 vs 0.3. Bonds Rallying

MBS Morning

10:31 AM Super Strong Start After "Perfect" CPI Number

Commentary

2:01 PM Old vs New Fed Statement With Changes Highlighted

Alert

2:09 PM Slightly Weaker After Fed Dots Show Only 1 Cut in 2024

Alert

3:25 PM Weakest Levels of The Afternoon After Powell Press Conference

Econ Data / Events

- ○ month over month core CPI
 - 0.2 vs 0.3 f'cast, 0.3 prev
- Annual core CPI
 - 3.4 vs 3.5 f'cast, 3.6 prev

Market Movement Recap

- 09:29 AM sharply stronger after CPI data and holding gains so far. 10yr down 15bps at 4.271. MBS up over 3/8ths in 6.0 coupons and nearly 5/8ths in 5.5 coupons
- 12:37 PM Sideways to slightly stronger at best levels. 10yr down 14.6bps at 4.257. MBS up half a point.
- 02:31 PM Two-way trading after Fed's dot plot (announcement was unchanged, basically). Initial weakness, but bouncing back as the press conference gets underway. 10yr down 13.3bps at 4.268. MBS up 14 ticks (.44).
- 03:26 PM MBS are now up "only" 10 ticks (.31) in 6.0 coupons and 14 ticks (.44) in 5.5. coupons. 10yr yields are down 8.9bps at 4.311
- 04:02 PM Another few ticks of weakness. MBS still up a quarter point, but about halfway back to pre-CPI levels. 10yr still down 7bps at 4.33.

Lock / Float Considerations

- The CPI/Fed combo presents (or presented?) an opportunity for both risk averse and risk tolerant clients to book the gains and move on. The urgency of the decision would be aided by Wednesday afternoon's negative reprices. There's a deeper level of risk tolerance, however, where a client would consider the CPI data to be delivering the messages consistent with even lower rates in the future. The BIG cautionary consideration with that is that it takes big ticket data to confirm such a thematic shift and we'll be waiting 3-4 weeks before we'd have enough to ratchet up the conviction. The only other way for risk-tolerant floaters to maintain their bullish stance would be to say the Fed was unsurprising and CPI was meaningful. Therefore, the trend is their friend until further notice.

Technicals/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	4.325%	-0.076%
2 YR	4.760%	-0.070%
30 YR	4.486%	-0.050%
5 YR	4.326%	-0.094%

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