

MBS & TREASURY MARKETS

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MBS Recap: Helpful Data, MBS Underperformance, Is This Time Different?



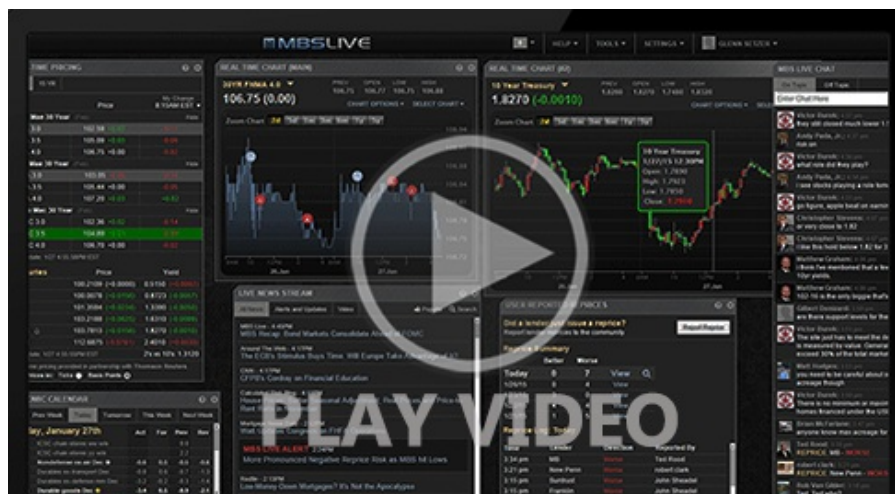
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Helpful Data, MBS Underperformance, Is This Time Different?

MBS Recap | Matthew Graham | 3:45 PM

The bond market reacted favorably to this morning's economic data which consisted of sharply lower producer prices at the core level and sharply higher jobless claims. But based on the next few hours, traders might say the initial move was an overreaction. It wasn't until the 30yr bond auction that Treasury yields were able to break to new lows for the day. MBS, however, never made that quantum leap for reasons we ponder in today's recap video. One of the reasons has to do with the chance that "things are changing" in terms of broad rate momentum, but we can't really know if this time is different until several months of data confirm the story that's currently only 2 days old.



Update

8:36 AM Rally Returns After More Friendly Data

MBS Morning

10:48 AM Another Round of Rate-Friendly Data, But Yields Look "Floored"

Alert

10:53 AM Still Green, But Down an Eighth Since 9am ET

Update

1:09 PM Treasuries at Best Levels After 30yr Auction

Econ Data / Events

- ○ Month over month core PPI
 - 0.0 vs 0.3 f'cast, 0.5 prev
- Year over year core PPI
 - 2.3 vs 2.4 f'cast, 2.4 prev
- Jobless Claims
 - 242k vs 225k f'cast, 229k prev

Market Movement Recap

- 09:18 AM modestly stronger overnight with additional gains after data. MBS up 7 ticks (.22) and 10yr down 4.2bps at 4.276
- 10:59 AM Slowly losing ground after initial data-driven rally. MBS still up 5 ticks (.16) and 10yr still down 4.1bps at 4.278.
- 11:46 AM Bouncing back a bit now. 10yr down 6.4bps at 4.256. MBS up nearly a quarter point.
- 01:05 PM Best levels of the day after 30yr bond auction. 10yr down 9.5bps at 4.224. MBS up 10 ticks (.31).
- 03:11 PM Sideways in the PM for MBS, still up 10 ticks in 5.5 coupons. 10yr broadly sideways, currently down 8bps at 4.239

Lock / Float Considerations

- If rates are to rally further, it requires an ongoing supply of friendly economic data. The bar gets higher as rates get lower. Risk-tolerant floaters can use recently broken floors as new ceilings (aka lock triggers). Defensive clients are focused on risk associated with inbound econ data. Both sides of the spectrum should continue to consider that it takes several months of cohesive econ data to truly confirm a shift that coincides with a more float-friendly environment.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.57
 - o 4.49
 - o 4.35
- Floor/Resistance
 - o 4.07
 - o 4.19
 - o 4.23

MBS & Treasury Markets



MBS

30YR UMBS 5.5	+
30YR UMBS 6.0	+
30YR GNMA 5.5	+
15YR UMBS-15 5.0	

US Treasuries

10 YR
2 YR
30 YR
5 YR

4.240%
4.693%
4.398%
4.238%

-0.079%
-0.059%
-0.078%
-0.080%

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