

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.



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.

Technical/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	4.240%	-0.079%
2 YR	4.693%	-0.059%
30 YR	4.398%	-0.078%
5 YR	4.238%	-0.080%

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