

MBS & TREASURY MARKETS

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MBS Recap: Once More: What's Up With MBS Underperformance?



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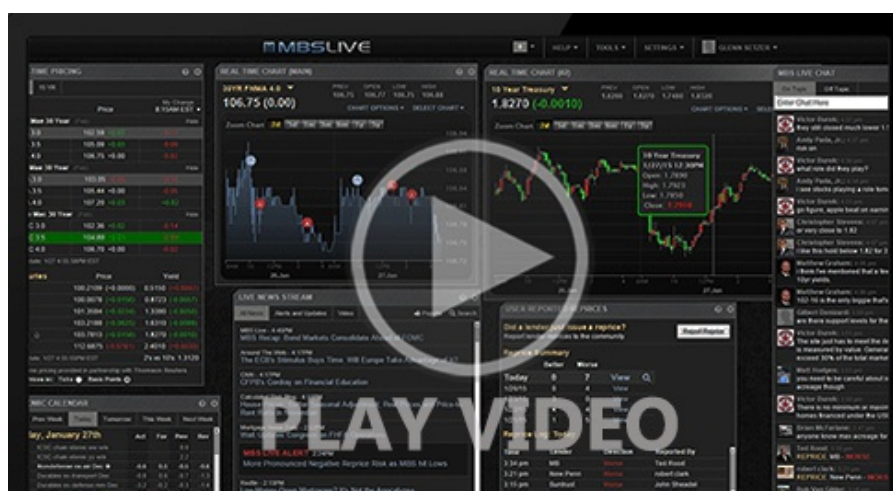
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Once More: What's Up With MBS Underperformance?

MBS Recap | Matthew Graham | 3:35 PM

The notion of MBS underperforming Treasuries is front and center today--not because that underperformance is especially large, but mainly because MBS were often in the red while Treasuries were in the green. We have nothing new to add to yesterday's similar discussion of MBS underperformance but have nonetheless attempted to add a few thoughts in today's video. As for nuts and bolts, it was a boring day for bonds with modest gains for the long end of the yield curve (one major reason for MBS underperformance) and an uneventful, sideways grind in the afternoon.



Update

8:57 AM Some Selling at 8:20am CME Open

MBS Morning

1:07 PM Tired Friday For The Bond Market--Especially MBS

Econ Data / Events

- ○ Import Prices
 - -0.6 vs 0.0 f'cast, 0.6 prev
- Export Prices
 - -0.4 vs 0.1 f'cast, 0.9 prev
- Consumer Sentiment
 - 65.6 vs 72.0 f'cast 69.1 prev
 - 1yr inflation exp. unchanged
 - 5yr inflation exp. +0.1%

Market Movement Recap

- 08:58 AM stronger overnight, but giving up some gains in the past half hour. MBS up 1 tick (.03) and 10yr down 2.7bps at 4.218
- 11:54 AM Choppy trading in a narrow range. MBS underperforming with 5.5s down 1 tick (.03). 10yr yields are down 3bps at 4.215
- 03:14 PM Zero change from the last update and very little volatility between now and then.

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	4.206%	-0.038%
2 YR	4.688%	-0.009%
30 YR	4.342%	-0.054%
5 YR	4.226%	-0.019%

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