

MBS & TREASURY MARKETS

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MBS Recap: Additional Mid-Day Gains Independent of Data and Events



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Additional Mid-Day Gains Independent of Data and Events

MBS Recap | Matthew Graham | 4:12 PM

Bonds traded the day in two distinct sections. First up was the reaction to the Retail Sales data with a logical rally following the weaker results. Gains weren't especially huge and a modest correction lasted until 11am. At that point, the second shift began with volume profiles suggesting position squaring ahead of Wednesday's holiday closure. The preponderance of Fed speakers could also have been deemed supportive, but the timing and trading volumes don't support that conclusion very well. This mini bull run ended with the 20yr bond auction which caused brief, 2-way trading without leaving a lasting impression. Bonds were flat after that.





Watch the Video

Update

8:45 AM Retail Sales Misses; Last Month Revised Down. Bonds Like It

MBS Morning

10:19 AM Bonds Back in The Game After Modest Miss in Retail Sales

Econ Data / Events

- ○ Retail Sales
 - 0.1 vs 0.2 f'cast
 - last month revised down to -0.2 from 0.0
- Industrial Production
 - 0.9 vs 0.3 f'cast, 0.0 prev

Market Movement Recap

- 08:46 AM flat overnight with a modest rally after Retail Sales. MBS up nearly a quarter point. 10yr down 4.3bps at 4.24.
- 10:21 AM Backtracking from AM gains a bit. 10yr down 2.2bps at 4.26. MBS up 3 ticks (.09).
- 01:08 PM stronger into the auction and little changed after. 10yr down 6.2bps at 4.22. MBS up a quarter point.

Lock / Float Considerations

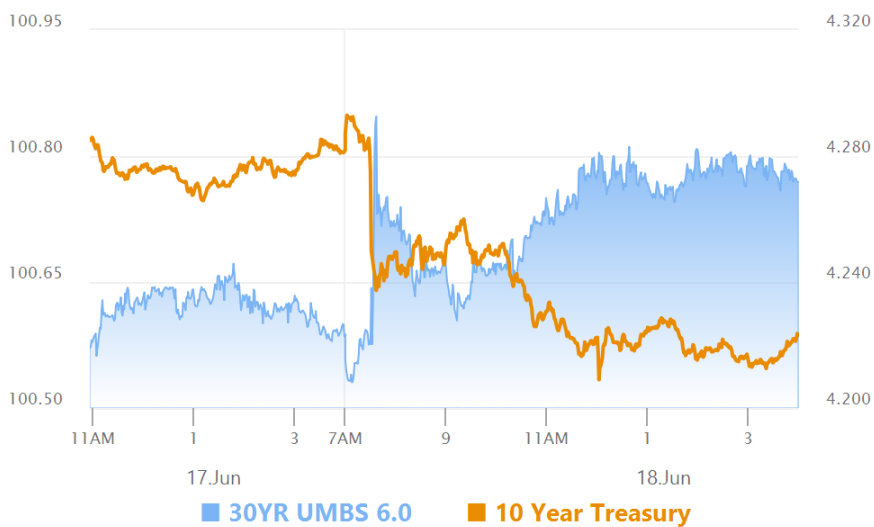
- There are two distinctly different approaches to the futile task of predicting the future as of Tuesday 6/18. In the short term, the nature of today's unjustified mid-day strength suggests position squaring and the risk of an unwind on Thursday--a lock-biased approach. In the bigger picture, weaker Retail Sales adds another piece of evidence in favor of economic cooling. If data continues in that vein, 10yr yields in the 4s could quickly look too high--a more risk-tolerant stance, but one that is highly dependent on data and susceptible to volatile reactions in response to the typical data aberrations (i.e. the occasional strong report that prints in the midst of generally weaker reports)

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 | 4.214% | -0.068% |
| 2 YR | 4.706% | -0.060% |
| 30 YR | 4.346% | -0.060% |
| 5 YR | 4.235% | -0.069% |

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