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MBS Recap: Counterintuitive Weakness Early, But Inconsequential in Bigger Picture



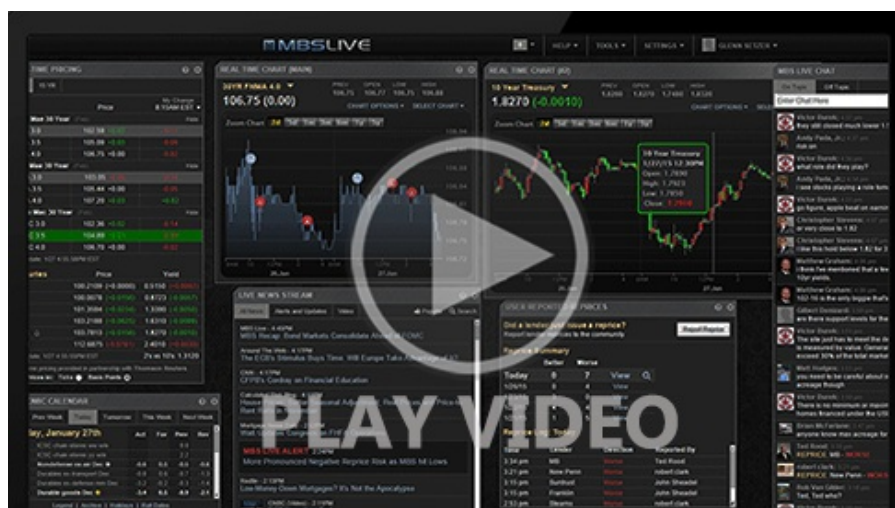
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Counterintuitive Weakness Early, But Inconsequential in Bigger Picture

MBS Recap | Matthew Graham | 3:24 PM

The past two trading days each had their own version of counterintuitive movement. Today's installment featured bond yields rising after a batch of mostly weaker economic data. The only way to justify it using the data itself would be to assume the market's nearly exclusive focus was on the inflation implications associated with higher Philly Fed prices (a component of the Philly Fed Index). Apart from that, we can consider position-driven trading which may have been behind Tuesday's gains and now today's offsetting losses. Regardless, none of the above matters considering the well-contained size of each move. Yields remain just shy of recent lows and have been trading a narrow range ever since last week's rally concluded.



Update

8:44 AM Small, Paradoxical, Negative Reaction to AM Data

MBS Morning

11:07 AM Position-Driven Trading Likely Behind Today's Paradoxical Weakness

Econ Data / Events

- ○ Jobless Claims
 - 238k vs 235k f'cast, 243k prev
- Continued Claims
 - 1828k vs 1810k f'cast, 1813k prev
- Philly Fed Index
 - 1.3 vs 5.0 f'cast, 4.5 prev
- Philly Fed Prices
 - 22.5 vs 18.7 prev
- Housing Starts
 - 1.277m vs 1.37m f'cast, 1.352m prev

Market Movement Recap

09:46 AM paradoxically weaker after data. 10yr up 6bps at 4.284. MBS down 6 ticks

11:39 AM gradually off the lows. MBS down an eighth and 10yr up 4.5bps at 4.269

02:32 PM A bit more healing in Treasuries with 10yr up 2.6bps at 4.249. MBS still down almost an eighth.

Lock / Float Considerations

- Somewhat elevated risk/reward heading into Friday's PMI data (one of the earliest looks at June's economic performance). It may be a tired phrase, but "data dependence" is just as relevant as ever. The most significant movement likely waits for more significant data, but an exceptionally large beat or miss would still set the tone for the day.

Technical/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - 4.57
 - 4.49
 - 4.35
 - 4.30

- Floor/Resistance
 - 4.07
 - 4.19

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	4.250%	+0.027%
2 YR	4.725%	+0.009%
30 YR	4.390%	+0.034%
5 YR	4.263%	+0.018%

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