### MBS & TREASURY MARKETS

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# MBS Recap: Very Restrained Bond Rally Considering The Data's Implications



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#### Very Restrained Bond Rally Considering The Data's Implications

MBS Recap Matthew Graham | 4:38 PM

Today's CPI data was hotly anticipated, to say the least, and it did a borderline heroic job of advocating for a huge drop in rates. Not only did the core M/M number drop to an unrounded 0.065 (implies core annual inflation UNDER 1.0%) but shelter inflation dropped to the lowest levels since the start of the pandemic, roughly in line with the bottom of the pre-pandemic range. Those ingredients would have allowed the market to cook up a much bigger rally than we saw today, even though we saw the 2nd biggest mortgage rate drop in 2024. A slower pace is more sustainable. Markets want to do things right this time.

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# Update 8:34 AM CPI Lower Than Expected. Bonds Rallying MBS Morning 10:47 AM This is The Inflation Data You Were Hoping For Alert 3:42 PM MBS Down More Than an Eighth From Mid Day Highs

#### Market Movement Recap

- 10:47 AM Immediate rally in response to CPI and mostly holding since then. MBS up 3/8ths and 10yr down 10bps at 4.184.
- 02:03 PM modest pull-back after poorly received 30yr auction. 10yr still down 9.1bps at 4.195 and MBS still up more than quarter point.
- 03:42 PM MBS are still up 10 ticks (.31) in 5.5 coupons but down more than an eighth from mid-day highs. 10yr yields are still down nearly 9bps at 4.20, but that's up from lows of 4.166.

#### Lock / Float Considerations

The friendly CPI surprise lowers risk/reward going forward. Risk tolerant floaters will treat it as the confirmation of a new trend that takes rates lower. Risk averse clients are just waiting for rate sheets to reflect most of the MBS improvement before locking.

#### Technicals/Trends in 10yr (why 10yr)

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

<sup>0</sup> 4.30

## Floor/Resistance 4.07

• **4.19** 

#### MBS & Treasury Markets

|                   | MBS                     |                    |
|-------------------|-------------------------|--------------------|
| 30YR UMBS 6.0     |                         | +                  |
| 30YR UMBS 6.5     |                         | +                  |
| 30YR GNMA 6.0     |                         | +                  |
|                   |                         | +                  |
| 15YR UMBS-15 5.0  |                         |                    |
| 15 YR UMBS-15 5.0 | US Treasuries           |                    |
| 10 YR             | US Treasuries<br>4.208% |                    |
|                   |                         | -0.078%<br>-0.118% |
| 10 YR             | 4.208%                  | -0.078%            |



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