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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**
 - 4.30
- Floor/Resistance
 - **4.07**
 - **4.19**

	MBS	
30YR UMBS 6.0		4
30YR UMBS 6.5		4
30YR GNMA 6.0		-
15YR UMBS-15 5.0		
15 TK UMB5-15 5.0		
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10 YR	US Treasuries 4.208%	-0.078%
10 YR		-0.078% -0.118%
	4.208%	

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