

MBS & TREASURY MARKETS

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MBS Recap: Pleasant PPI Paradox Leaves This Week's Big Victory in Focus

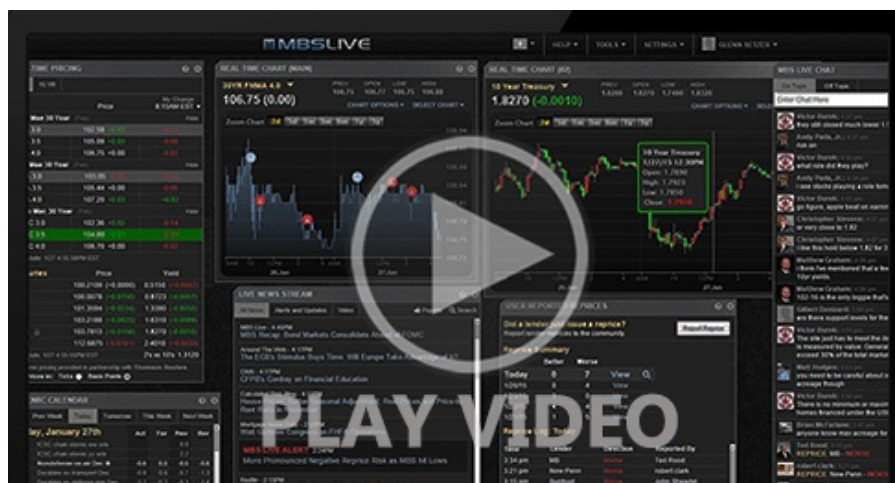


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Pleasant PPI Paradox Leaves This Week's Big Victory in Focus

MBS Recap Matthew Graham | 4:44 PM

The Producer Price Index (PPI) introduced a brief but disconcerting threat to this week's relative level of triumph (courtesy of yesterday's CPI) by suggesting a big, unexpected surge in core inflation at the wholesale level. Bonds initially panicked, but quickly got back on track and never looked back. Thankfully, the components behind the PPI surge are not the same components that would translate to PCE inflation in 2 weeks. We can also consider PPI's notorious volatility and conclude it would take more than one of these surprises to raise a serious eyebrow. With that, the focus of the week remained squarely on yesterday's big CPI victory.



Update

8:37 AM Surprisingly Resilient After MUCH Higher PPI

MBS Morning

11:40 AM Bonds Holding Yesterday's Gains Despite Hotter PPI

Econ Data / Events

- ○ Core PPI M/M
 - 0.4 vs 0.2 f'cast
 - last month revised to 0.3 from 0.0
- Core Annual PPI
 - 3.0 vs 2.5 f'cast, 2.3 prev
- Consumer Sentiment
 - 66.0 vs 68.5 f'cast, 68.2 prev
- Consumer inflation expectations
 - 1yr down 0.1
 - 5yr down 0.1

Market Movement Recap

- 08:43 AM Slightly stronger overnight but giving back gains after PPI. MBS unchanged. 10yr up 0.3bps at 4.216.
- 10:31 AM healing continues. MBS up an eighth. 10yr down 1.6bps at 4.197
- 01:07 PM Flat and sideways at the same levels as the last update.
- 04:43 PM Bonds heading out at or near best levels with MBS up nearly 3/4ths and 10yr down 2.6bps at 4.187.

Lock / Float Considerations

The friendly CPI surprise lowers risk/reward going forward. Risk tolerant floaters will treat it as the

- The monthly CPI surprise lowers risk/reward going forward. Risk tolerant investors 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")
 - o 4.57
 - o 4.49
 - o 4.35
 - o 4.30
- Floor/Resistance
 - o 4.07
 - o 4.19

MBS & Treasury Markets

MBS

| | | |
|------------------|--|---|
| 30YR UMBS 6.0 | | + |
| 30YR UMBS 6.5 | | + |
| 30YR GNMA 6.0 | | + |
| 15YR UMBS-15 5.0 | | + |

US Treasuries

| | | |
|-------|--------|---------|
| 10 YR | 4.187% | -0.026% |
| 2 YR | 4.458% | -0.057% |
| 30 YR | 4.400% | -0.024% |
| 5 YR | 4.107% | -0.037% |

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