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



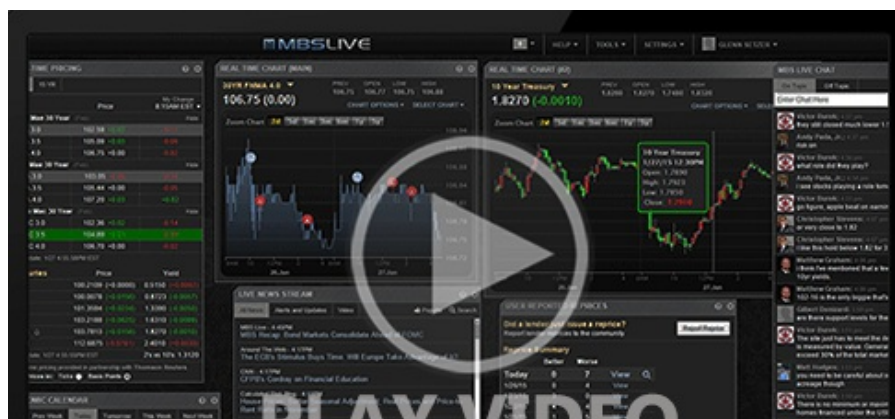
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MBS Recap | Matthew Graham | 4:44 PM

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.



- 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")
 - 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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