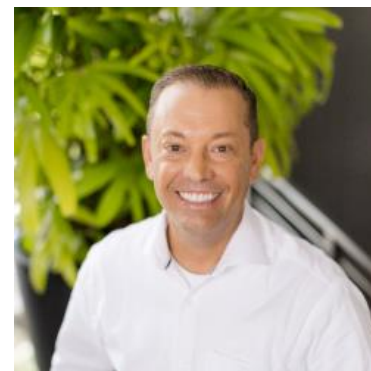
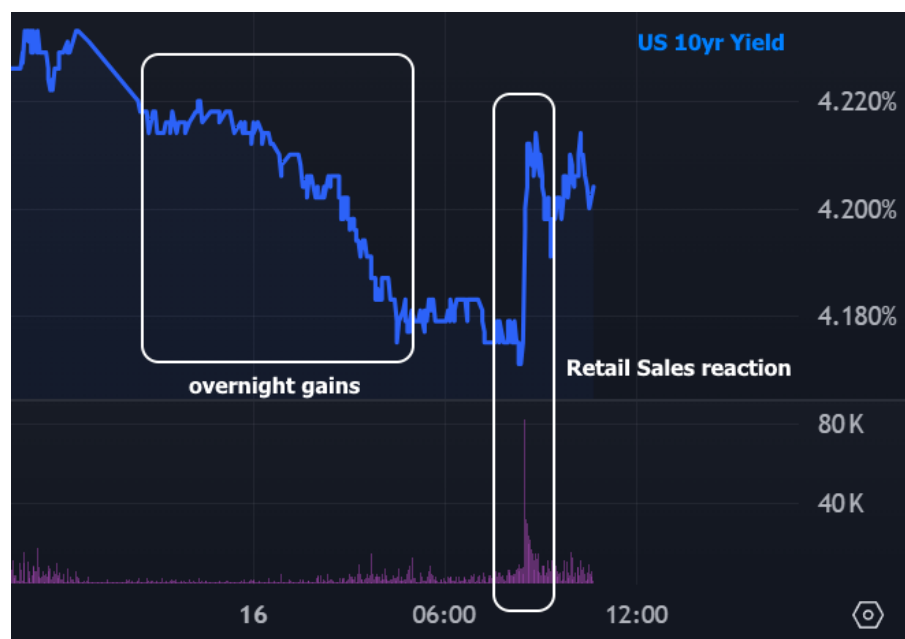


MBS & TREASURY MARKETS

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The Day Ahead: Two Kinds of Flat

Retail Sales was/is the biggest data point of the week and it came out perfectly unchanged. This was as-expected according to some data aggregators and stronger than expected according to others. Perhaps more importantly, some of the closely watched internals were much stronger. For example, excluding autos and gas, retail sales rose 0.8% versus 0.3% last month and forecasts of 0.1%. This helps the flat headline look stronger than expected. It is also resulting in a flat morning for MBS, which marks a loss of roughly 6 ticks (.19) in MBS versus opening levels. Technically, bonds are still in modestly stronger territory due to solid overnight gains. The rest of the day will be spent fighting to hold just inside positive territory and that would be a good victory in the bigger picture considering rates are at 5 months lows.



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