

MBS & TREASURY MARKETS

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MBS Recap: Lots of Competing Motivations Causing Volatility In a Narrow Range



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Lots of Competing Motivations Causing Volatility In a Narrow Range

MBS Recap | Matthew Graham | 3:28 PM

Today marked an uptick in the importance of economic data for the week and it had obvious consequences for volatility. Of particular importance was the higher reading in quarterly PCE prices. Because this is the first look at Q2 data, it's one of 4 days each year where the PCE component of the GDP data offers a sneak peek at the full PCE report that comes out the following morning. The 2.9 vs 2.7 reading suggests there's extra inflation that will be distributed between April, May, and June. If June accounts for more than the other two months, tomorrow's PCE index will be higher than expected, and thus bad for rates. That accounts for some weakness this morning, but traders are also in the midst of adjusting their yield curve positioning which has resulted in big discrepancies between longer and shorter term rates this week.





Watch the Video

Update

8:39 AM Stronger GDP/PCE Data Eroding Some of The Overnight Rally

MBS Morning

11:44 AM Strong Start Despite Data Driven Volatility

Econ Data / Events

- ○ Jobless Claims
 - 235k vs 238k f'cast, 245k prev
- Durable Goods
 - -6.6 vs 0.3 f'cast, 0.1 prev
- Nondefense ex-air Durable Goods
 - 1.0 vs 0.2 f'cast, -0.9 prev
- GDP
 - 2.8 vs 2.7 f'cast
- Core PCE Prices Q/Q
 - 2.9 vs 2.7 f'cast

Market Movement Recap

- 08:56 AM Sharply stronger overnight but losing ground after data. MBS still up 7 ticks (.22) and 10yr still down 5+ bps at 4.24.
- 11:51 AM Decent amount of volatility in the AM hours. Slightly negative drift, but MBS still up 6 ticks (.19) and 10yr still down 6bps at 4.229
- 01:43 PM Generally weaker after the auction, with losses focused on the short end. MBS still up an eighth. 10yr still down 3bps, but near highs of day at 4.258

Lock / Float Considerations

- This week's weakness makes the case that bonds have been correcting off the strong levels achieved last week. The risk averse approach would be to wait for further correction to be ruled out. Risk tolerant clients are increasingly close to having their overhead lock triggers taken out, depending on the trigger of choice. That said, the rest of the week may have more to do with data than **technicals** and curve trading.

Technicals/Trends in 10yr (why 10yr)

- **Ceiling/Support** (can be used as "lock triggers")
 - o 4.49
 - o 4.35
 - o 4.30
 - o 4.17
- **Floor/Resistance**
 - o 3.91
 - o 4.07

MBS & Treasury Markets

MBS

30YR UMBS 5.5		+
30YR UMBS 6.0		+
30YR GNMA 5.5		+
15YR UMBS-15 5.0		+

US Treasuries

10 YR	4.260%	-0.029%
2 YR	4.446%	+0.012%
30 YR	4.502%	-0.044%
5 YR	4.149%	-0.029%

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