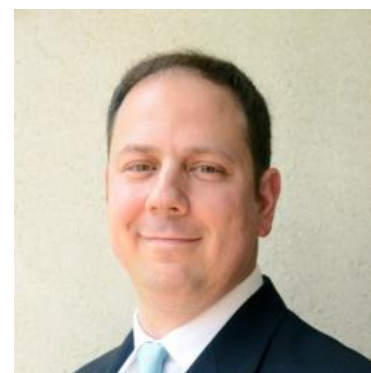


MBS & TREASURY MARKETS

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MBS Recap: Straightforward Gains After Important Inflation Data

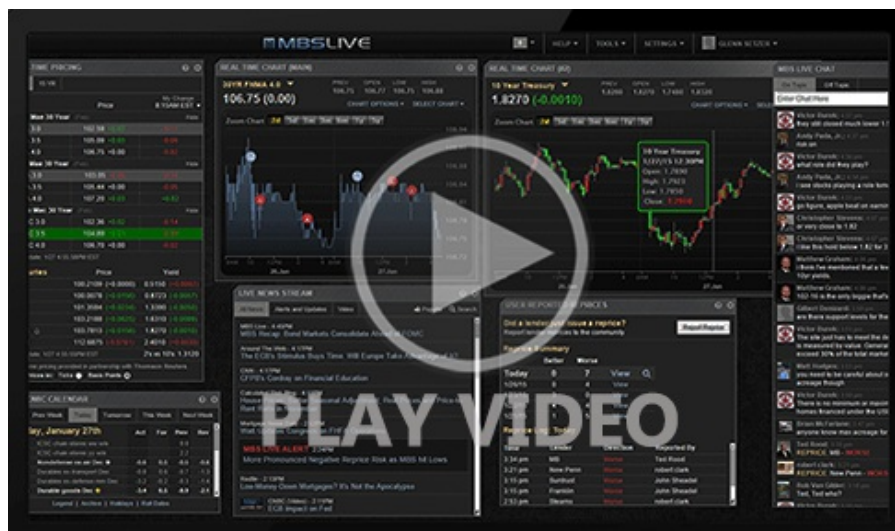


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Straightforward Gains After Important Inflation Data

MBS Recap | Matthew Graham | 5:53 PM

While today's monthly core PCE headline may have technically been higher than the median forecast, a vast majority of forecasters abstained from submitting updated guesses to data aggregators after yesterday's quarterly PCE data. Had they been compelled to do so, the forecast would almost certainly have risen to 0.2 from 0.1 and today's unrounded number of 0.182 would be the logical beat that the market traded... logically. In fact, one might call the 2 day action "boring" considering this morning's quick PCE-driven rally almost perfectly offset yesterday's PCE-driven sell-off and neither was very big in the bigger picture.



Update

8:39 AM PCE Slightly Higher, But Bonds Are OK With It

MBS Morning

11:58 AM Bonds Rallying Despite Higher Core PCE

Econ Data / Events

- ○ Core M/M PCE
 - 0.2 vs 0.1 f'cast, 0.1 prev
 - (unrounded = 0.182%)
- Core Y/Y PCE
 - 2.6 vs 2.5 f'cast, 2.6 prev
- Incomes
 - 0.2 vs 0.4 f'cast, 0.4 prev
- Outlays
 - 0.3 vs 0.3 f'cast, 0.4 prev
- Consumer Sentiment
 - 66.4 vs 66.0 f'cast, 68.2 prev

Market Movement Recap

- 08:40 AM 10s are down 2.6bps at 4.218 and MBS are up 2 ticks (.06).
- 12:11 PM Mostly sideways after initial rally. MBS up 6 ticks (.19) and 10yr down 3.7bps at 4.207
- 02:28 PM Flat at same strong levels. MBS up 7 ticks (.22) and 10yr down 4.3bps at 4.201.
- 05:50 PM 10yr out the door down 4.7bps at 4.196 and MBS ended up just over a quarter point.

Lock / Float Considerations

- Friday's PCE victory helps set a range ceiling for now. It's all the way up at 4.29 in terms of 10yr yields, so it gives risk takers some room to play the range. As always, there's no way to know which way

things will go next week--only that the stakes are higher. Monday is uncommon in the sense that the only major market mover (Treasury refunding estimates) comes out in the afternoon. Volatility potential increases throughout the week with the Fed on Wednesday and the jobs report on Friday.

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	4.193%	-0.050%
2 YR	4.385%	-0.044%
30 YR	4.458%	-0.025%
5 YR	4.076%	-0.056%

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