



## MBS Recap: Surprisingly Strong Reaction to Equivocal Powell



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## Surprisingly Strong Reaction to Equivocal Powell

MBS Recap | Matthew Graham | 5:26 PM

Opinions certainly vary as to whether today's communications from the Fed and Fed Chair Powell were dovish or hawkish, so let's focus on facts. The changes in the statement itself were bond-friendly but not enough for bonds to rally. In fact, there was modest selling until Powell began answering questions. Powell himself said a September rate cut was one possible scenario assuming the data remains consistent with recent progress toward goals. Markets also keyed in on his comment regarding the possibility of "several" cuts in 2024. He was very clear, however, to say that no decisions have been made. A strong case can be made that today's rally isn't exclusively on Powell. Geopolitical headlines and month-end trading definitely had an impact. Still, history will remember that Powell did everything he could do to leave the door open for a September cut, short of promising that it would happen.





Watch the Video

## MBS Morning

8:50 AM AM Data Makes For a Solid Start on Fed Day

## Commentary

2:01 PM Old vs New Fed Statement With Changes Highlighted

## Update

2:04 PM First Move is Modestly Weaker After Fed

## Update

3:07 PM Back to Strongest Levels as Powell Evades Commitment

## Econ Data / Events

- ○ ADP Employment
  - 122k vs 150k f'cast, 155k prev
- Employment Cost Index
  - 0.9 vs 1.0 f'cast, 1.2 prev
- Chicago PMI
  - 45.3 vs 45.0 f'cast, 47.4 prev
- Pending Home Sales
  - +4.8 vs +1.5 f'cast

## Market Movement Recap

- 08:17 AM Flat overnight and a hair stronger after ADP. MBS up 1 tick (.03) and 10yr down 1bp at 4.126.
- 12:27 PM Best levels of the day for MBS, up 5 ticks (.16). 10yr down 3.4bps at 4.101.

- 02:10 PM Slightly weaker after Fed announcement. MBS still up 2 ticks (.06) and 10yr still down 1bp at 4.125
- 03:26 PM Stronger after press conference. MBS up a quarter point. 10yr down 5.7bps at 4.079
- 05:00 PM Strongest levels of the day at the close. MBS up 3/8ths and 10yr down 10.5bps at 4.031.

## Lock / Float Considerations

- Big month-end rally on Wednesday with help from Fed Chair Powell's press conference (paving the way for September cuts and placing more emphasis on the labor market as a trigger). The rally was bigger than the justification. This can be viewed as a sign of strong underlying momentum in the bigger picture, but can also cause concerns about temporary technical pull-backs in the shorter term. Foreign central bank announcements and US econ data are most likely to dictate volatility over the next few days.

## 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	4.031%	-0.105%
2 YR	4.259%	-0.101%
30 YR	4.304%	-0.091%

5 YR

3.914%

-0.119%

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