

MBS & TREASURY MARKETS

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MBS Recap: PPI Drives Decent Rally; But CPI Packs a Bigger Punch



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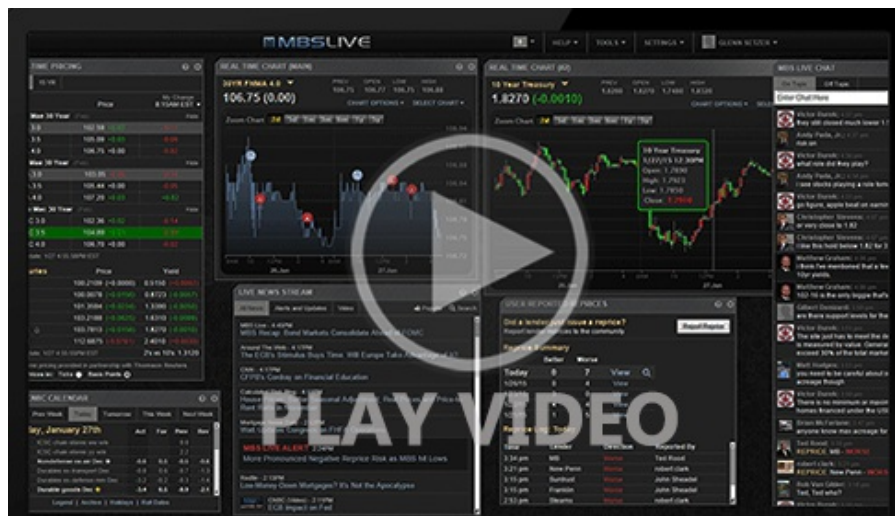
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PPI Drives Decent Rally; But CPI Packs a Bigger Punch

MBS Recap | Matthew Graham | 4:39 PM

This morning's core m/m Producer Price Index hit 0.0% versus a median forecast of 0.2%. Unsurprisingly, the friendly inflation reading resulted in immediate but reasonably subdued gains for the bond market. It goes without saying that PPI will always be 2nd fiddle to CPI (the Consumer Price Index). With CPI looming tomorrow morning, it's no surprise to see bonds avoid getting too carried away trading today's data. The reaction would likely be quite a bit more aggressive if we see a similarly big drop/miss in tomorrow's CPI data.



Update

8:33 AM Big Drop in Producer Prices. Bonds Rallying

MBS Morning

8:41 AM First Inflation Data of the Week Sets a Hopeful Tone

Econ Data / Events

- ○ Core Producer Prices m/m
 - 0.0 vs 0.2 f'cast, 0.3 prev
 - last month revised down 0.1
- Core Y/Y PPI
 - 2.4 vs 2.7 f'cast, 3.0 prev

Market Movement Recap

- 08:34 AM A hair stronger overnight with modest additional gains after PPI. MBS up an eighth and 10yr down 2.8bps at 3.877
- 10:53 AM Initial rally stalled out at 9:30, but without a major correction. MBS still up an eighth and 10yr down 4bps at 3.866 (up from lows of 3.848)
- 02:38 PM Sideways to slightly stronger near the days best levels. MBS up 6 ticks (.19) and 10yr down nearly 5bps at 3.857
- 04:24 PM Heading out near the day's best levels with MBS up 7 ticks (.22) and 10yr yields down 5.7bps at 3.848.

Lock / Float Considerations

- Highest risk/reward of the week ahead of Wednesday's CPI data. This is one of the 3 big reports that will solidify the case for a Fed rate cut in September (the other two being the next CPI and the early September jobs report). If all 3 are cooler than expected, they also serve the role of suggesting a 50bp Fed rate cut. Conversely, if all 3 are much higher than expected, they could knock the 100% probability of a cut down to a 50/50 or worse. With all of the above in mind, volatility risk is exceptionally high even though marquis reports can also thread the needle and ultimately leave the market roughly

sideways.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.07
 - o 3.97
 - o 3.89
- Floor/Resistance
 - o 3.58
 - o 3.73
 - o 3.79

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	3.847%	-0.058%
2 YR	3.938%	-0.081%
30 YR	4.160%	-0.041%
5 YR	3.677%	-0.069%

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