MBS Recap: Uncommonly Flat CPI Reaction

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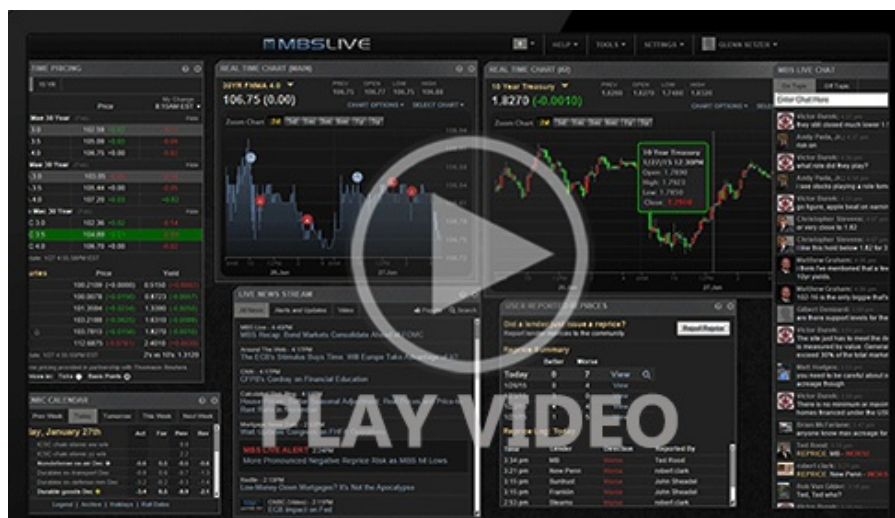**P:** (503) 221-0064
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Uncommonly Flat CPI Reaction

MBS Recap   Matthew Graham | 5:05 PM

Over the past year, the average CPI day can be picked out on a chart of daily bond market movement because it is often the biggest candlestick (or bar on a bar chart) between the 10th and 15th of any given month. This was not destined to be the case today. The as-expected result was the crux of the problem. Even when looking beyond the headline numbers, there were offsetting factors with the unrounded number being bond friendly and the shelter component making the opposite argument. Bonds ended almost perfectly flat despite some 2-way volatility in the morning.

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Update

8:34 AM Core CPI In Line With Expectations, But Losing Some Ground

MBS Morning

11:51 AM CPI Trying Its Best to Thread The Needle

Econ Data / Events

- ○ Core M/M CPI
    - 0.2 vs 0.2 f'cast, 0.1 prev
    - (unrounded, 0.165)

  ○ Core Y/Y CPI
    - 3.2 vs 3.2 f'cast, 3.3 prev

Market Movement Recap

10:15 AM Initially slightly weaker after CPI, but bouncing back now. MBS up 1 tick (.03) and 10yr down 2.1bps at 3.822

01:37 PM Off best levels, but still stronger. MBS up 2 ticks (.06) and 10yr down 1.6bps at 3.826

Lock / Float Considerations

- With CPI out of the way and bonds not seeing a huge impact, the baseline range for rates is marked by last week's highs and lows (roughly 3.70-4.00 in terms of 10yr yields). The 2nd tier econ data between now and the next jobs report can certainly cause movement within that range. Some reports are higher 2nd tier, such as Thursday's Retail Sales.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
    - ○ 4.07
    - ○ 3.97
    - ○ 3.89

- Floor/Resistance
  - 3.58
  - 3.73
  - 3.79

MBS & Treasury Markets

■ **30YR UMBS 5.0**   ■ **10 Year Treasury**

MBS

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

US Treasuries

10 YR	3.839%	-0.003%
2 YR	3.958%	+0.027%
30 YR	4.127%	-0.031%
5 YR	3.680%	+0.011%

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