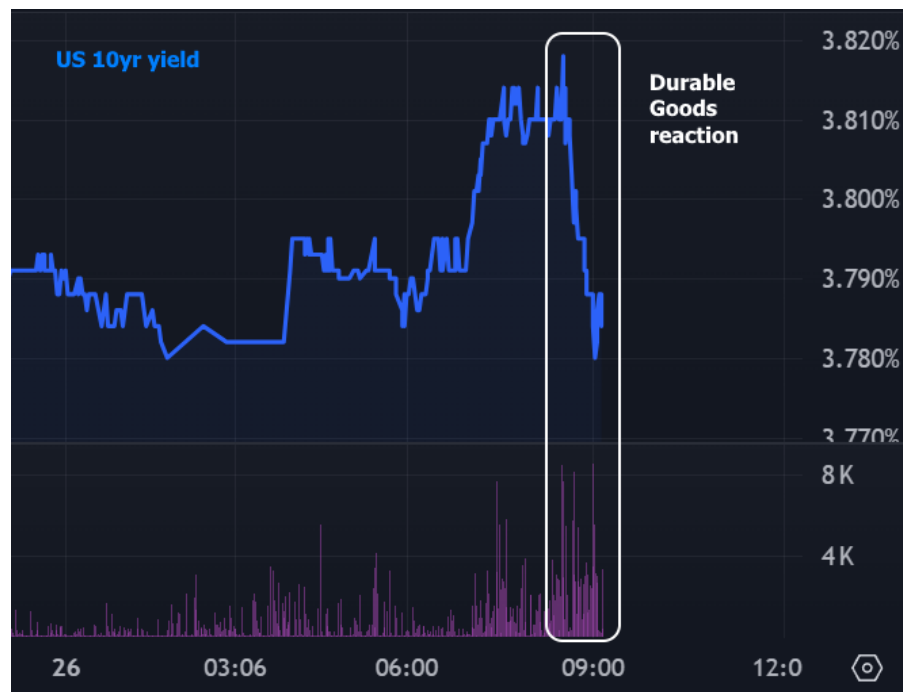


MBS & TREASURY MARKETS

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The Day Ahead: Why Are Bonds Rallying Despite Much Stronger Durable Goods?

The Durable Goods report is a somewhat inconsistent report in terms of its ability to influence the bond market. There are definitely examples of big reactions, but equally as often, the data fails to inspire--even in cases of big beats/misses. And sometimes there are even paradoxical reactions as is the case with today's beat (9.9 vs 5.0 f'cast) giving way to a moderate bond market rally. The first place to look on such occasions is at the core capital expenditure categories, with "nondefense capital goods orders excluding aircraft" being the main example. This component came in at -0.1 vs 0.0 f'cast. Moreover, last month's was revised down from 1.0. Bottom line, this says more about economic negativity than the balmy headline says about economic strength.



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