

MBS & TREASURY MARKETS

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MBS Recap: MBS Continue to Outperform, Sorta



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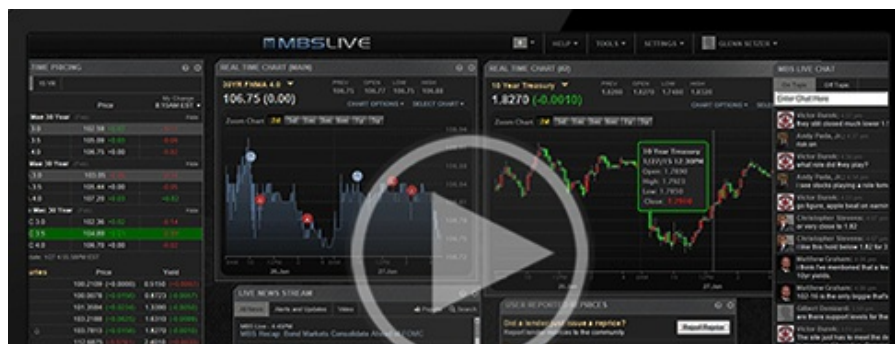
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MBS Continue to Outperform, Sorta

MBS Recap | Matthew Graham | 5:12 PM

Despite a nice little rally from weaker opening levels to stronger closing levels, it was a strikingly uneventful and uninteresting day for the bond market. Yields continued to operate in the same old range with 15 of the past 17 days trading inside the range set on NFP Friday. One of the only ways to concoct an interesting narrative would be to call attention to MBS outperformance (5.5 coupons were a bit stronger on the day while 10yr yields were a bit weaker). We could simply say "Treasury auction cycle" and be done with it, but that's an oversimplification. Besides, MBS don't always outperform on auction weeks. The more accurate observation is that the short end of the Treasury yield curve outperformed the long end, and MBS have more in common with the short end these days. In other words, it wasn't really outperformance by the time we compare MBS with the more appropriate benchmarks.





Watch the Video

MBS Morning

10:13 AM Nominal Pullback or a Negative Shift in The Trend?

Econ Data / Events

- ○ Case Shiller Home Prices
 - up 6.5% y/y vs 6.0% fcast
 - up 0.6% in June
- FHFA Home Prices
 - down 0.1% in June vs +0.2% fcast
 - up 5.1% y/y vs 5.3% fcast
- Consumer Confidence
 - 103.3 vs 100.7 fcast, 101.9 prev

Market Movement Recap

- 08:57 AM Steadily and moderately weaker overnight. 10yr up 4.5bps at 3.859 and MBS down an eighth.
- 11:40 AM MBS back to unchanged. 10yr up 2.9bps at 3.844
- 03:54 PM Best levels of the day for MBS, up 2 ticks (.06). 10yr down 1.5bps at 3.829

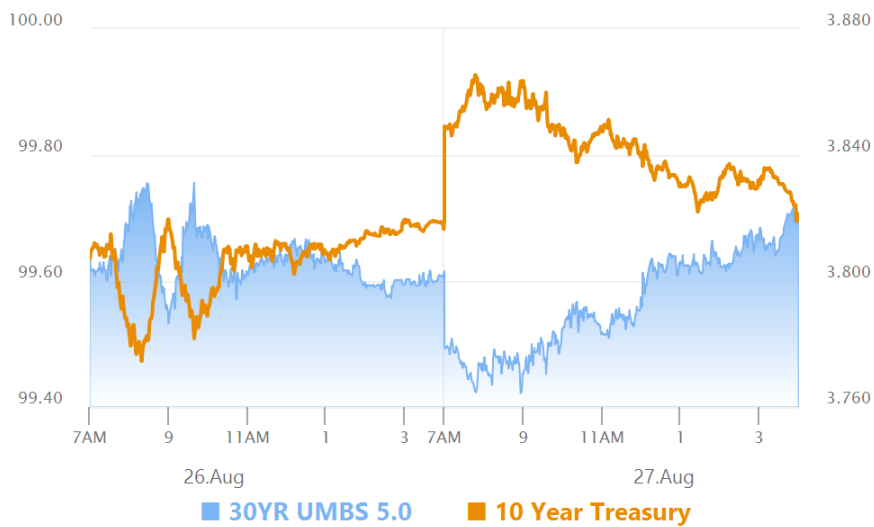
Lock / Float Considerations

- Uneventful start to the new week. Not much data this week, but Treasury auction cycle connotes headwinds until Thursday, all other things being equal. Risk/reward is much lower than it will be in the next 2 weeks, but volatility can still occur in response to a few of the AM economic reports--Friday's PCE and Thursday's jobless claims being the most notable.

Technical/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.07
 - o 3.95
- Floor/Resistance
 - o 3.58
 - o 3.70
 - o 3.82
 - o 3.87

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	3.825%	+0.010%
2 YR	3.898%	-0.038%
30 YR	4.120%	+0.014%
5 YR	3.654%	-0.012%

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