

# MBS & TREASURY MARKETS

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## The Day Ahead: So Far So Good as Bonds Wait on Data and Volatility

The new week is off to a nice, anti-climactic start. Monday morning's yields were slightly higher at first but fell into stronger territory by mid day. Today brought a milder repeat of the same pattern with smaller losses overnight and a quicker recovery in the morning. All of the above has played out in the absence of any significant economic data. Things change tomorrow with CPI and the 10yr Treasury auction, or at least they could change if there any big surprises in the data.

Believe it or not, yields are still trading slightly higher than last Friday's lows and also a bit higher than the lows seen on Monday, August 6th. Gains have been getting smaller and trading levels have been homing in on something in the high 3.6's--effectively consolidating ahead of inflation data this week and the Fed next week. While these sorts of tempered consolidations can imply resistance to further gains, they also suggest an openness to additional gains if the data justifies it. Contrast that to the rally in early August which was anything but tempered.



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