

MBS & TREASURY MARKETS

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MBS Recap: Does Today's Inflation Data Change Anything?



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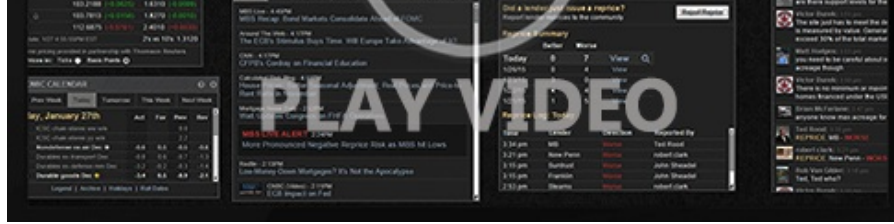


Does Today's Inflation Data Change Anything?

MBS Recap | Matthew Graham | 3:42 PM

Bonds initially sold off following the higher-than-expected core CPI reading this morning. Shelter inflation spiked back to troubling territory as well--something that was perhaps an even bigger problem for bonds. Nonetheless, bonds moved back to stronger territory in short order. The only lingering damage was to the Fed's rate cut outlook for next week. Markets were already squarely in the 25bp camp, but today's data went a long way toward sealing the deal. When it comes to the longer term rate outlook, today means nothing. The Fed and financial markets would be hypocritical if they allowed one inflation report to materially alter the outlook.





Watch the Video

Alert

8:38 AM CPI Slightly Hotter. Bonds Selling Moderately

MBS Morning

11:37 AM CPI Helps Flesh Out Rate Cut Odds, But Not Much Else

Alert

12:18 PM Losing Ground Again After Nice Recovery

Market Movement Recap

- 09:39 AM Slightly stronger overnight then modestly weaker after CPI. MBS down 3 ticks (.09) and 10yr up 1.9bps at 3.665
- 10:41 AM Back into stronger territory now with MBS up 2 ticks (.06) and 10yr down 2.4bps at 3.622
- 01:03 PM bonds were weaker into the 10yr auction and remain just barely weaker despite stronger results. 10yr up 1bp at 3.655 and MBS down 3 ticks (.09).
- 03:26 PM Back to 'unchanged' now with MBS actually up 1 tick (.03) and 10yr up only 0.3bs at 3.649

Lock / Float Considerations

- With bonds weathering the higher CPI reading and Treasury auction in unchanged territory, risk-tolerant floaters have yet to see the sort of big bad movement that would compel them to take chips off the table. The exception would be for those who've floated and feel like they're pressing their luck. Risk averse clients are always compelled by the lowest rates in more than a year, even if the trend has been friendly. Indeed, it is worth considering that even friendly trends occasionally meet technical resistance in order to reset and continue. The more we improve, the more one might be concerned about seeing such a consolidation.

Technical/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 3.95
 - o 3.87
 - o 3.82
 - o 3.77
 - o 3.72
- Floor/Resistance
 - o 3.58
 - o 3.66

MBS & Treasury Markets



MBS

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

US Treasuries

10 YR	3.656%	+0.010%
2 YR	3.645%	+0.046%
30 YR	3.966%	-0.002%
5 YR	3.448%	+0.023%

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