

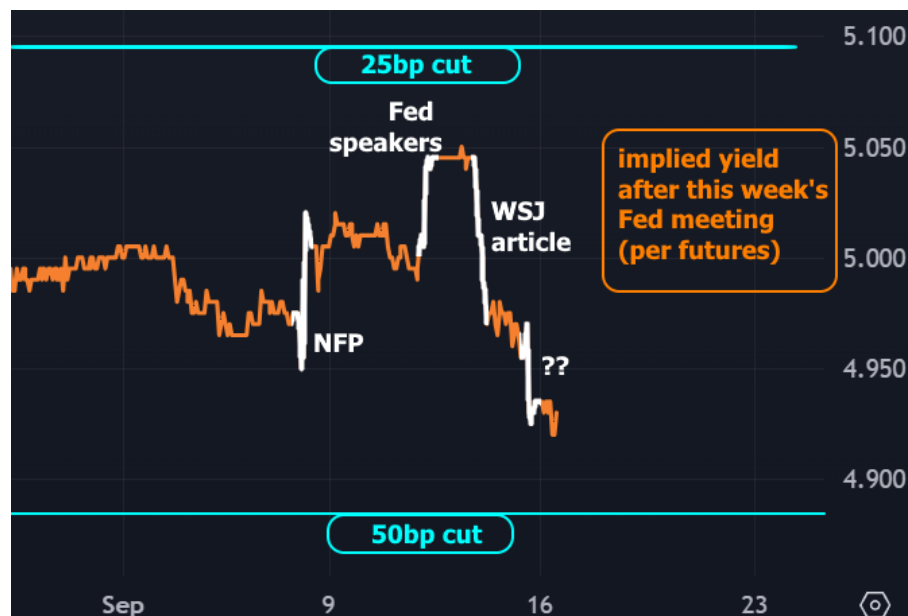
MBS & TREASURY MARKETS

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The Day Ahead: Starting Out Fairly Flat, But Give it a Few Days...

So far in the new week, bonds have rallied a bit in the overnight session and sold off a bit after this morning's stronger NY Fed Manufacturing data. The result is a fairly flat morning with MBS and Treasuries both still just barely stronger. If there was ever a week to expect "flat" to have a limited shelf life, this is it. At no other time in the era of abundant Fed transparency has the market been so divided in its expectations of outcomes. Not only are debates due to be resolved on the size of the rate cut, but we can also assume many market participants will be surprised by the dot plot. If there's a saving grace to limit excess volatility, it's that anything the Fed says on Wednesday will continue to depend on the same economic data that has gotten us to this point.

Here's a visualization of the market's indecision over the past week. From 50/50 to nearly an 80% chance of a 25bp cut now to a roughly 70% chance of a 50bp cut...



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