

MBS & TREASURY MARKETS

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MBS Recap: Bonds Lose Ground Despite Larger Fed Rate Cut



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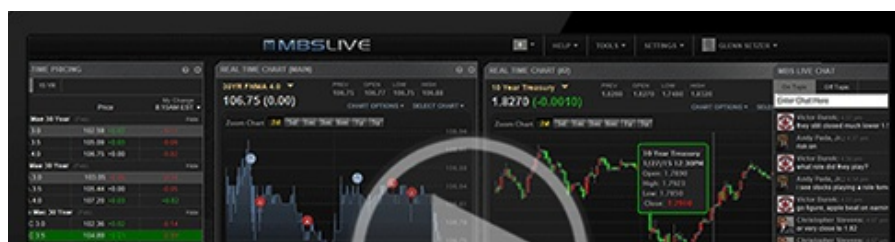
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Bonds Lose Ground Despite Larger Fed Rate Cut

MBS Recap | Matthew Graham | 5:14 PM

The Fed was either going to cut 0.50% or 0.25% today. It opted for the larger cut but the bond market LOST ground. For those who hadn't tuned in over the past few weeks to learn why such things can happen, there were two potential reasons: the dot plot and Powell's press conference. The dot plot was inoffensive and actually left bonds in slightly better shape. It was Powell's press conference that caused the reversal this time. He didn't show visible concern on the labor market. He was clear to specify that 50bp isn't the pace of cuts until further notice. He stayed well clear of declaring victory on inflation. And he reiterated that the "neutral rate" is probably "significantly higher" than before the pandemic. Combine all that with a bond market that had been in a relatively aggressive position heading into Fed Day and the moderately weaker closing levels are about as boring and logical a result as anyone could imagine.





Watch the Video

MBS Morning

9:31 AM Hamlet's Advice on Fed Day

Alert

10:33 AM MBS Down More Than an Eighth From AM Highs

Commentary

2:01 PM Here's What Changed in The New Fed Announcement

Update

2:07 PM First Move is Stronger As Fed Cuts 50bps

Alert

3:08 PM MBS Down More Than a Quarter From Highs

Econ Data / Events

- ○ Housing Starts
 - 1.356m vs 1.31m f'cast, 1.237m prev
- Building Permits
 - 1.475m vs 1.41m f'cast, 1.406m prev

Market Movement Recap

- 08:34 AM Modestly weaker overnight with losses starting in Europe. MBS down 3 ticks (.09) and 10yr up 2.5bps at 3.681
- 10:23 AM Some additional losses with MBS now down 5 ticks (.16) and 10yr up 3.3bps at 3.689
- 12:06 PM Off the weakest levels. MBS down 5 ticks (.16) and 10yr up 3bps at 3.685
- 02:22 PM

02:35 PM Plenty of volatility after Fed's 50bp cut and aggressive dot plot. 10yr currently down 1.5bps at 3.64 and MBS up 1 tick (0.03) in 5.0 coupons.

03:12 PM Losing some ground now with MBS back to pre-Fed levels and down a quarter point from highs. 10yr up to highs of day at 3.70

04:07 PM weakest levels of the day. MBS down 7 ticks (.22) and 10yr up 6bps at 3.713

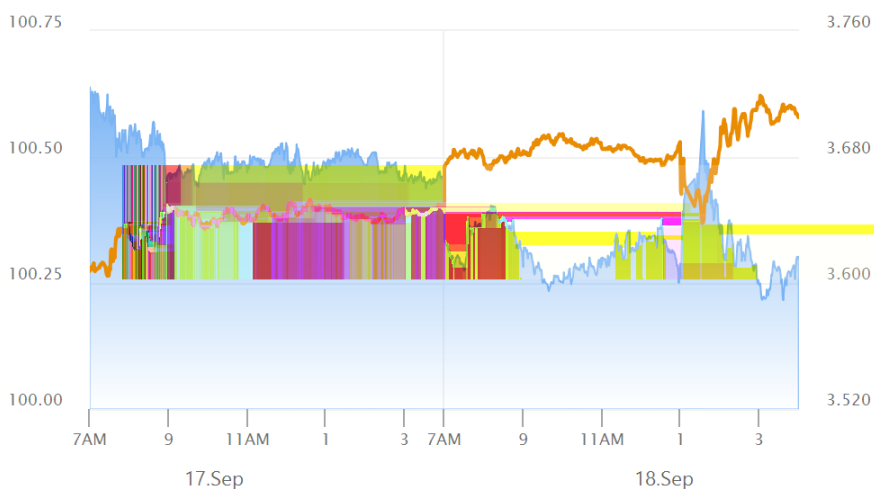
Lock / Float Considerations

- Until it can be ruled out, there's a risk that Fed day helped define a lower boundary to the prevailing rate range in the short term. This advocates a lock bias for most clients--one that could be reconsidered if rates break to new lows in the coming days. Bigger picture movement relies on the econ data in early October, absent an unexpected, exogenous shock.

Technicals/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	3.706%	+0.051%
2 YR	3.619%	+0.012%
30 YR	4.023%	+0.064%
5 YR	3.489%	+0.045%

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