

MBS & TREASURY MARKETS

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MBS Recap: Wednesday's Market Movement Raises Stakes for Friday

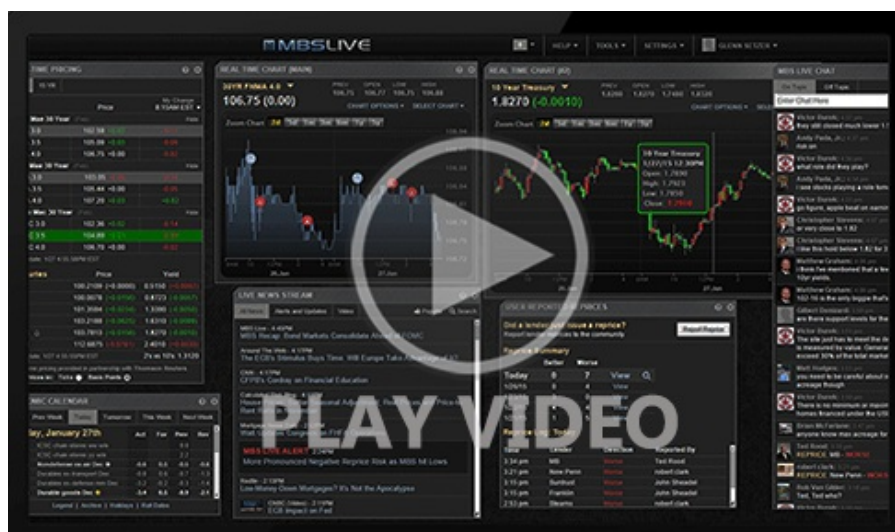


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Wednesday's Market Movement Raises Stakes for Friday

MBS Recap | Matthew Graham | 4:02 PM

There are times when the bond market seems not to care too terribly much what the ADP Employment report is saying. There are other times when ADP has a surprisingly big impact. Relative to the size of today's beat, we arguably saw one of the surprisingly big reactions today. It's not that the move was huge, but rather, that a beat of 143k vs 120k f'cast isn't really worth trading one way or the other normally. It speaks to a market that's on edge about a potentially reassuring NFP on Friday. The default expectation is for more and more labor market slack to be showing up. If it doesn't, bonds are vulnerable to more selling. If it does, the lower boundaries of the recent rate ranges are already well established by the pre-Fed trade.



Watch the Video

Alert

8:26 AM Weaker After ADP Employment Data

MBS Morning

12:00 PM Fairly Pronounced Reaction to ADP Data

Econ Data / Events

- ○ ADP Employment
 - 143k vs 120k f'cast, 103k prev

Market Movement Recap

- 08:27 AM Weaker overnight and after ADP. MBS down an eighth and 10yr up 5.4bps at 3.787
- 11:41 AM Bouncing back somewhat. MBS down 3 ticks (.09) and 10yr up 5.9bps at 3.792 (previously as high as 3.817)
- 01:58 PM MBS nearly back to unchanged, down only 1 tick (0.03). 10yr still up 4.3bps at 3.776
- 03:43 PM Friendly bounce has run its course. MBS down 3 ticks (.09). 10yr up 5.3bps at 3.786

Lock / Float Considerations

- The post-Fed correction is officially over and bonds are now at the whim of economic data (and perhaps unexpected geopolitical headlines). Risk averse clients are waiting for better evidence of new rally momentum. Risk tolerant clients are rolling the dice on weak econ data. Results could push rates in either direction, but the biggest movement is reserved for the jobs report on Friday. Wednesday's ADP suggested some asymmetric risk, perhaps, in that a weak NFP might not do as much to help bonds as a strong NFP would hurt.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - 3.95
 - 3.87
 - 3.82

- 3.77
 - 3.72
- Floor/Resistance
- 3.58
 - 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	3.783%	+0.050%
2 YR	3.635%	+0.029%
30 YR	4.131%	+0.059%
5 YR	3.553%	+0.042%

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