

MBS & TREASURY MARKETS

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MBS Recap: ISM Makes For Negative NFP Lead-Off



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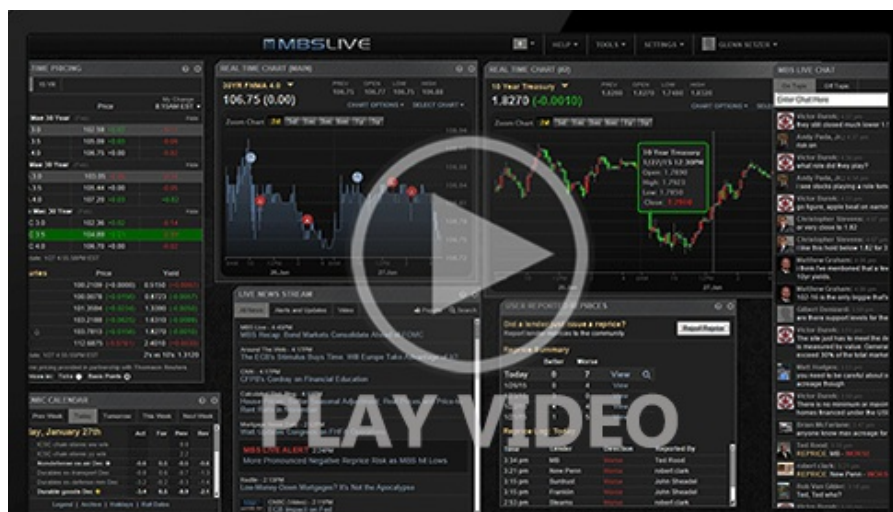
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ISM Makes For Negative NFP Lead-Off

MBS Recap | Matthew Graham | 5:13 PM

If the bond market has to digest an ISM Services report that is much stronger than expected, it would be best not to have it come out less than 24 hours before the big jobs report. Otherwise, you get a day like today where the data fueled a pre-NFP (nonfarm payrolls--the headline component of Friday's jobs report) lead off toward higher rates.



MBS Morning

9:46 AM The Consolidation Game is Over

Alert

10:05 AM Additional Losses After Mixed ISM Data (UPDATED)

Alert

2:51 PM Negative Reprice Risk Increasing

Econ Data / Events

- ○ Jobless Claims
 - 225k vs 220k f'cast, 219k prev
- S&P Services PMI
 - 55.2 vs 55.4 f'cast, 55.7 prev
- ISM Services
 - 54.9 vs 51.7 f'cast, 51.5 prev
- ISM Employment
 - 48.1 vs 50.2 prev
- ISM Prices
 - 59.4 vs 56.3 f'cast, 57.3 prev
- ISM Activity
 - 59.9 vs 53.3 prev

Market Movement Recap

- 08:34 AM Weaker overnight and no major reaction to Jobless Claims. MBS down 3 ticks (.09) and 10yr up 2.6bps at 3.81
- 10:05 AM Weaker after ISM. 10yr yields are now up 5bps at 3.833 and MBS are down another 3 ticks (.09) for a total of 6 ticks (.19) on the day.
- 03:16 PM pre-NFP drift toward weaker levels. MBS down 9 ticks (.28) and 10yr up 6.3bps at 3.846
- 05:13 PM bonds closed near weakest levels, and right in line with the previous update.

Lock / Float Considerations

- All bets are always off ahead of the jobs report. On Wednesday, it looked like there might be some unfavorable asymmetric risk that a weak number might not help as much a strong number would hurt, but that risk has probably been balanced by the sell-off on Thursday. Either way, a decisively stronger/weaker NFP number is generally guaranteed to yield a clear move in the logical direction.

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	3.847%	+0.064%
2 YR	3.705%	+0.060%
30 YR	4.181%	+0.050%
5 YR	3.629%	+0.074%

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