

MBS Recap: Bonds Undergoing a Bit of a Reset



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Bonds Undergoing a Bit of a Reset

MBS Recap Matthew Graham | 4:06 PM

3 weeks ago, the Fed voted to cut rates by 0.50%. Traders had rushed to get in position for that, so a small "reset" followed as the market waited for the most important vote. The vote in question was on whether or not the market was ahead of itself in mid-September and it was cast by last Friday's jobs report. When marquis reports coincide with big changes in Fed policy, and when Fed policy changes had a lot to do with the past two examples of the marquis report in question, and when the marquis report not only offers a completely different message from the past two, but also revises the past two in a way that casts doubt on the extent of the Fed's decision, you get exactly what we've seen since Friday morning. It's a firm rejection of mid-September's rates and a wake-up call that rates can still move higher, but not the same sort of watershed moment seen in 2013 before the taper tantrum. Barring unforeseen exogenous shocks, we'll now need another weak jobs report (or two or three) before re-challenging the mid-September floor.



Watch the Video

MBS Morning

10:27 AM More Pain. Fewer Surprises

Market Movement Recap

- 11:29 AM Weaker overnight and flat since then. MBS down almost 3/8ths and 10yr up 5.6bps at 4.014
- 02:03 PM very low volatility at weaker levels. MBS and Treasuries unchanged from pervious update.
- 03:52 PM A bit more weakness in Treasuries with 10yr up 7.1 bps at 4.029. MBS still down 3/8ths.

Lock / Float Considerations

- Friday's strong jobs report and resulting bond market rout change the calculus for rate expectations until further notice. Traders now need new data to reinvigorate the case for an economy that's weakening enough to support the Fed's expected case of rate cuts. As big as Friday's sell-off was, it still makes sense to view it as the start of a trend toward higher rates until the market proves otherwise. That leaves both risk-tolerant and risk-averse clients in a lock-biased stance.

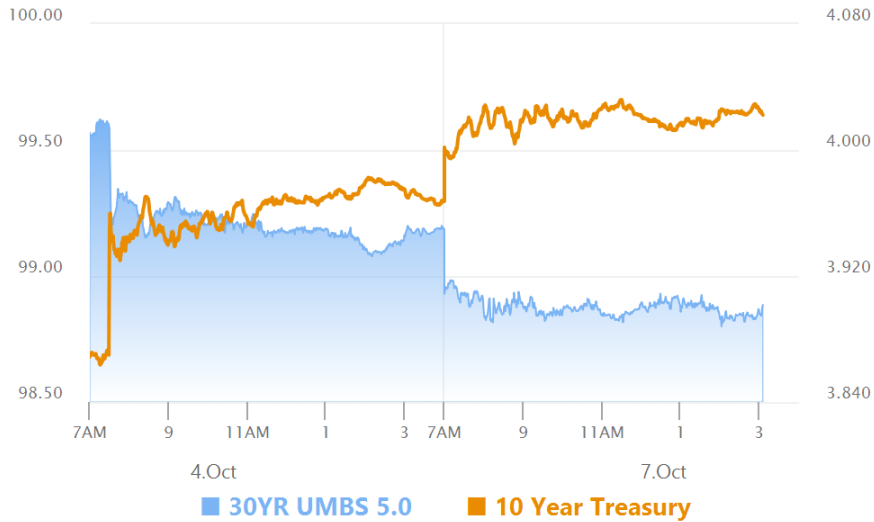
Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.20
 - o 4.15
 - o 4.05

- Floor/Resistance

- 3.77
- 3.82
- 3.87
- 3.95

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	4.023%	+0.065%
2 YR	3.984%	+0.064%
30 YR	4.303%	+0.058%
5 YR	3.860%	+0.059%

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