

MBS & TREASURY MARKETS

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MBS Recap: Don't Expect Salvation From CPI



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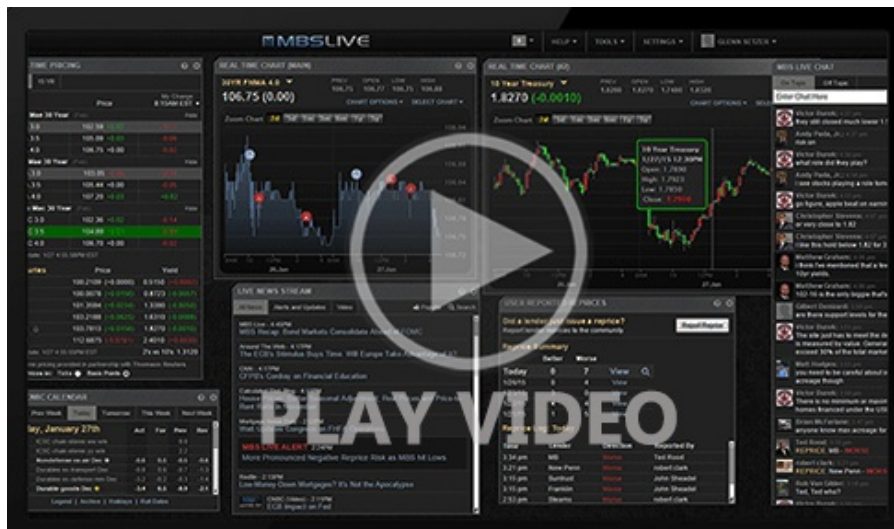
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Don't Expect Salvation From CPI

MBS Recap | Matthew Graham | 3:45 PM

Bonds lost a bit of ground on Wednesday with Treasuries having a far rougher go of it than MBS, but not by much, ultimately. If one had to guess at reasons for the MBS Outperformance on a Treasury auction week, blaming the Treasury auction cycle is the easiest solution. In so doing, we're also planning on the next rally being better for Treasuries than it would be for MBS. The present weakness doesn't have any good, immediate justifications. This is how the choppy, sideways drift is playing out after the initial rate spike that followed Friday's jobs report. The worst may be over, but that doesn't mean bond weakness is over. As for salvation, don't expect miracles from Thursday's CPI. It likely has the potential to calm some nerves if it comes in much lower than expected, but even more potential to reinvigorate the sell-off if it comes in much higher.



MBS Morning

10:09 AM Some Pre-Auction Anxiety and a Million Fed Speeches

Alert

12:24 PM MBS Down More Than an Eighth From AM Highs

Market Movement Recap

- 09:32 AM modestly weaker overnight, moving with Europe. Choppy and sideways since then. MNBS down 2 ticks (0.06). 10yr up 2.9bps at 4.042
- 11:56 AM 10yr at highs of the day, up 3.8bps at 4.051. MBS down an eighth.
- 01:06 PM No love from auction. 10yr up 5.5bps at 4.068 and MBS down an eighth.
- 02:09 PM No reaction to Fed minutes. 10yr up 5.6bps at 4.069 and MBS down 5 ticks (.16).
- 03:44 PM Weakest levels of the day for MBS with 5.0 coupons down 6 ticks (.19). 10yr yields up 5.3bps at 4.066.

Lock / Float Considerations

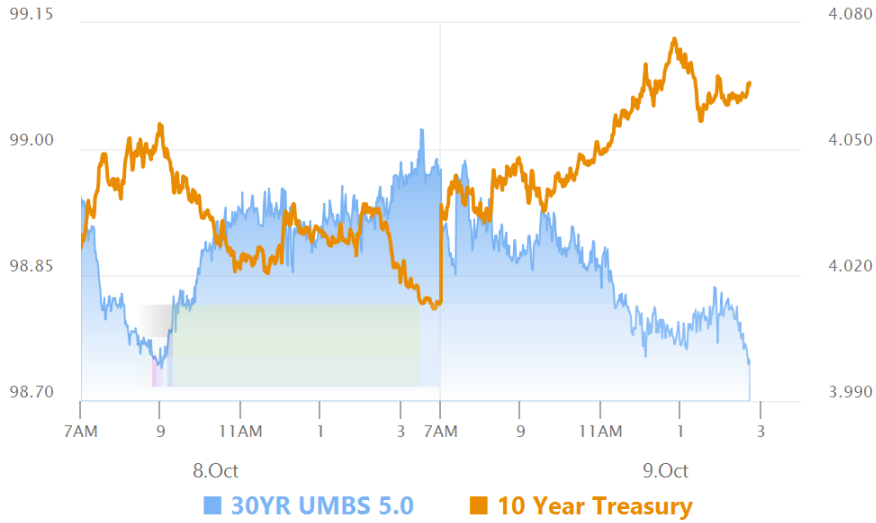
- Bonds continuing to drift sideways to slightly weaker. Floating is akin to catching a falling knife until the market proves it's done with this correction. That will take weak econ data and the data has to be in a significant report. It's not clear that a low CPI would enough to do the trick, but it could help stop the slide. Conversely, a higher CPI could make things worse. Asymmetric risk that continues to favor locking.

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
 - o 3.77
 - o 2.92

- 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	4.066%	+0.053%
2 YR	4.017%	+0.059%
30 YR	4.340%	+0.037%
5 YR	3.909%	+0.064%

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