

MBS & TREASURY MARKETS

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MBS Recap: Why Bonds Tanked Despite Super Low NFP

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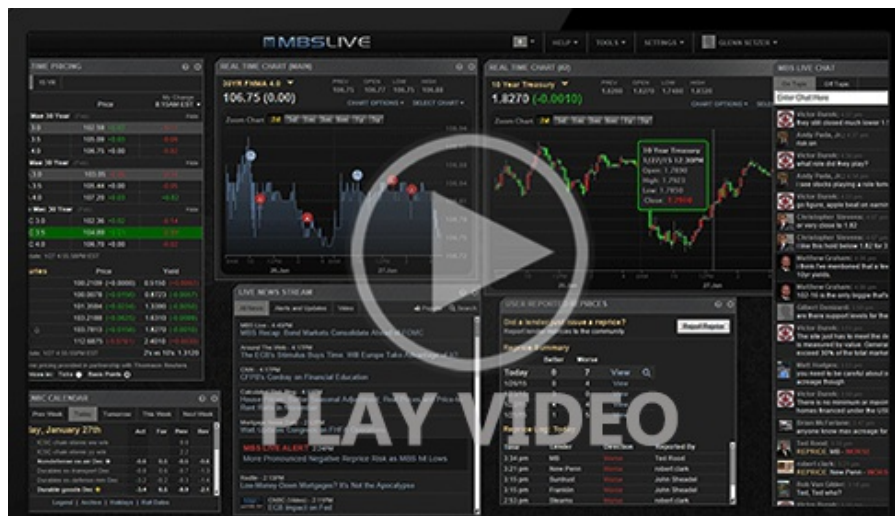
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Why Bonds Tanked Despite Super Low NFP

MBS Recap | Matthew Graham | 5:06 PM

Nonfarm Payrolls (NFP) came in at 12k versus a median forecast of 113k, and a previous reading of 254k. If those were the only facts you knew, on almost any other jobs report day in the history of jobs report days, you'd be well advised to bet heavily on a bond rally. The fact that bonds tanked can only be explained by an unknown combination of two things--maybe 3. We're all already family with bonds generally weakening ahead of the election. That could be an ongoing factor behind today's weakness. But there's also some nuance in the jobs report if we agree that the payroll count was artificially distorted by temporary events. Lastly, ISM prices rose to the highest levels of the year. This could have some traders thinking "what if inflation has another bounce like it did in early 2024?" This might seem like a longshot, but bonds were still in positive territory by the time ISM came out.



Update

8:38 AM Swing and a Miss For NonFarm Payrolls. Bonds Rallying

MBS Morning

10:06 AM Yes, NFP Really Dropped to 12k, But Don't Expect a Huge Rally

Alert

10:22 AM Down More Than a Quarter Point From Highs

Alert

11:51 AM Negative Reprice Risk Increasing

Econ Data / Events

- ○ Nonfarm Payrolls
 - 12k vs 113k f'cast, 223k prev
- Unemployment Rate
 - 4.1 vs 4.1 f'cast, 4.1 prev
- ISM Manufacturing
 - 46.5 vs 47.6 f'cast, 47.2 prev
- ISM Prices
 - 54.8 vs 48.5 f'cast, 48.3 prev

Market Movement Recap

- 10:07 AM Initially stronger after NFP, but losing ground since 8:50am ET. MBS still up 3 ticks (.09) but 10yr unchanged at 4.287
- 11:09 AM Additional weakness. MBS down an eighth on the day and 10yr up 5.4bps at 4.34
- 01:43 PM Weakest levels. 10yr up 7.8bps at 4.364. MBS down 6 ticks (.19).
- 04:47 PM going out at new highs for 10s, up 9.8bps at 4.385, and new lows for MBS, down 7 ticks (.22) in 5.5 coupons.

Lock / Float Considerations

- The market's unwillingness to maintain any gains following the jobs report is the latest piece of evidence that a meaningful rate rally isn't possible until after the election. Whether or not someone should hold out for that depends entirely on the election outcome. Some talking heads suggest bonds rally either way because they've simply moved to the sidelines, but we'd approach it from this standpoint of more selling being possible depending on the election outcome (including congressional elections).

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.49
 - o 4.43
- Floor/Resistance
 - o 4.12
 - o 4.20
 - o 4.30
 - o 4.35

MBS & Treasury Markets



MBS

30YR UMBS 5.5
30YR UMBS 6.0
30YR GNMA 5.5
15YR UMBS-15 5.0

US Treasuries

10 YR
2 YR
30 YR
5 YR

4.385%
4.210%
4.580%
4.225%

+0.099%
+0.030%
+0.104%
+0.068%

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