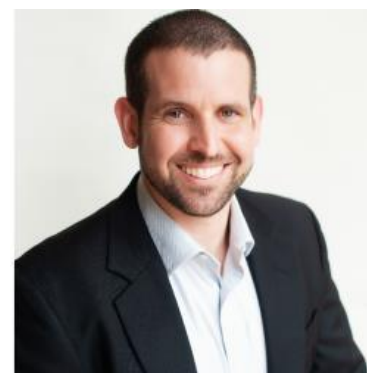


MBS & TREASURY MARKETS

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MBS Recap: Getting Back to Normal, For a Few Days Anyway

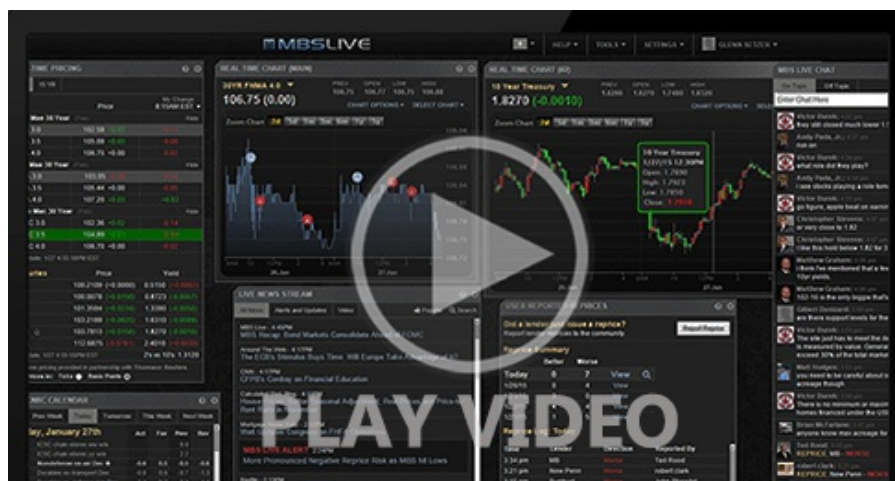


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Getting Back to Normal, For a Few Days Anyway

MBS Recap | Matthew Graham | 4:24 PM

After a decidedly abnormal 6 weeks beginning in early October, bonds began to calm down last week. This offered some hope that the brisk volatility and selling pressure was subsiding. With 10yr yields closing inside a 3bp range for 5 days in a row, the restoration of normality is basically confirmed. Today's data didn't have a big impact, but we wouldn't expect it to (based on the mixed signals). Bonds continue waiting on early December data for the next big push in one direction or the other. The upcoming week is always a bit of a wild card due to the holiday and month-end, but the fact remains that there are no truly top tier market movers.



Update

10:00 AM Slightly Weaker After PMI Data, But Some Solace From Internals

MBS Morning

12:03 PM Evidence Continues For The Sideways Slide

Econ Data / Events

- ○ S&P Services PMI
 - 57.0 vs 55.2 f'cast, 55.0 prev
- Consumer Sentiment
 - 71.8 vs 73.7 f'cast, 70.5 prev
- 1yr inflation expectations
 - unchanged

Market Movement Recap

- 11:29 AM stronger overnight and steadily weaker during domestic hours. MBS unchanged and 10yr down 1.1bps at 4.409
- 01:39 PM Little changed from last update. MBS up 2 ticks (.06) and 10yr down 0.9bps at 4.412
- 03:58 PM Super sideways, all day, but a bit stronger for MBS, now up an eighth of a point. 10yr down half a bp at 4.417.

Lock / Float Considerations

- The burden of proof remains on economic data to make a case for any significant improvement in rates. In other words, don't expect big, sustained improvement without markedly weaker data/inflation. This doesn't mean rates can't drop here and there, but it does mean there's not currently a reason for them to drop very much or for very long unless data makes a case for it. The best hope over the last 2 weeks of November is for volatility to subside and for the prevailing uptrend in rates to run out of steam. These are not the sort of hopes upon which to base lock/float strategy, but it does generally seem like this is what's been happening.

Technical/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	4.413%	-0.008%
2 YR	4.377%	+0.029%
30 YR	4.597%	-0.004%
5 YR	4.305%	+0.003%

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