MBS Recap: Solid Conclusion to a Solid Week. Has The Tide Turned?

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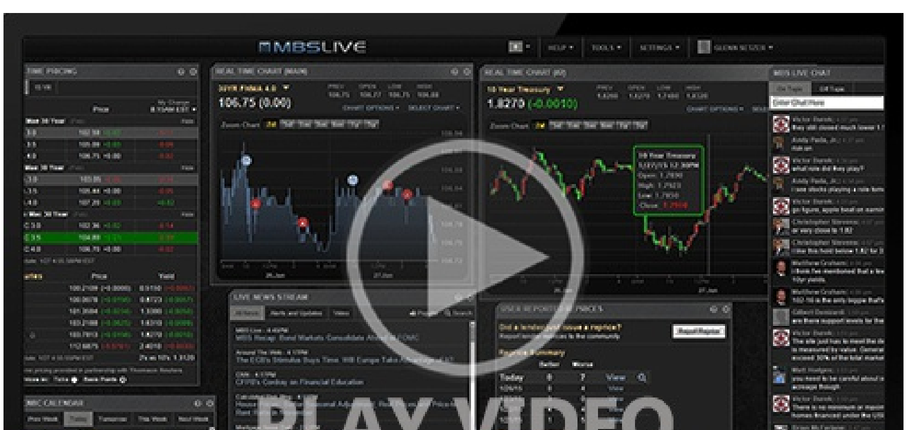
Solid Conclusion to a Solid Week. Has The Tide Turned?

MBS Recap Matthew Graham | 4:57 PM

After Thanksgiving week introduced a potential breakout from the recent uptrend in yields, this week kept hope alive. It also kept us in suspense until today due to the jobs report. Despite a decent facade (227k vs 200k f'cast), the closer one examined today's jobs data, the weaker it began to look. Markets agreed without much hesitation. It wasn't as if the data was downbeat enough for a massive rally, but we'd argue that today's modest rally is still a great victory on a week where yields were already pushing the lowest levels since October 21st. Next week will be important in determining the endurance of this rally with Treasury auctions and inflation data. The following week will set the tone for the end of the year with the Fed's dot plot and rate announcement.



Watch the Video

Update

8:36 AM Payrolls at 227k vs 200k Forecast, Minimal Movement So Far

MBS Morning

9:52 AM Why Are Bonds Rallying Despite a Seemingly Decent Jobs Report?

Alert

11:10 AM MBS Down an Eighth From AM Highs

Econ Data / Events

- Nonfarm Payrolls
  - 227k vs 200k f'cast, 36k prev
- Unemployment Rates
  - 4.2 vs 4.2 f'cast, 4.1 prev
- Participation Rate
  - 62.5 vs 62.7 f'cast, 62.6 prev
- Consumer Sentiment
  - 74 vs 73 f'cast
- 1yr inflation expectations
  - 2.9 vs 2.6 prev

Market Movement Recap

08:54 AM Fairly flat overnight and modestly stronger after jobs report. MBS up just over an eighth and 10yr down 1.8bps at 4.153

10:03 AM MBS now up a quarter point and 10yr down 3bps at 4.14

11:10 AM off the highs. MBS now up only an eighth on the day and 10yr up .4bps at 4.175

04:40 PM Heading out near the day's best levels. MBS up a quarter point and 10yr down 2.3bps at 4.148

Lock / Float Considerations

- Rates are at the lowest levels in a month and a half after the jobs report. That's a compelling lock opportunity for the risk averse crowd. While there's no guarantee that recently friendly momentum will continue, the risk-tolerant crowd tends to approach these scenarios from a "trailing stop" mindset (i.e. waiting for bond market weakness to force their hands). As always, the specific amount of weakness would be a subjective decision for the client/scenario in question.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
    - 4.43
    - 4.35
    - 4.30
    - 4.20

- Floor/Resistance
    - 3.99
    - 4.12

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	4.151%	-0.020%
2 YR	4.103%	-0.039%
30 YR	4.336%	-0.004%
5 YR	4.034%	-0.043%

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