MBS Recap: Why Bonds Sold Off After a Decent AM Rally

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Why Bonds Sold Off After a Decent AM Rally

MBS Recap   Matthew Graham | 4:15 PM

It was a day for "explanations" in the bond market with the morning rally needing to be explained in the context of CPI data that came in right on the screws and a subsequent sell-off that also seemed to happen for no apparent reason. In fact, selling continued even after the well-received 10yr Treasury auction. To some extent, the AM selling can be tied to the Bank of Canada announcement, which was universally panned as ultra-hawkish (despite a 0.50% rate cut). The continued selling is more mysterious and can only really be explained with curve trading and repositioning following the AM CPI data. The big clue: Fed Funds Futures for next week rallied and never sold off. But the farther one moves into the future, the bigger the reversal became. Bottom line, traders sold long term bonds to buy the shortest term debt and the buying hasn't even necessarily taken place yet.

[Watch the Video](#)

<div style="background-color: #E6A935;">Update</div>

8:46 AM   CPI Right on The Screws. Bonds Rallying a Bit

<div style="background-color: #A01010;">Alert</div>

10:33 AM   MBS More Than an Eighth Below Highs

<div style="background-color: #4D9DD6;">MBS Morning</div>

10:52 AM   Why Bonds Rallied After CPI (And Why They Reversed Course an Hour Later)

<div style="background-color: #A01010;">Alert</div>

1:43 PM   Weakest Levels of The Day

Econ Data / Events

- ○ Core M/M CPI
    - ■ 0.3 vs 0.3 f'cast, 0.3 prev
    - ■ unrounded, 0.308

- ○ Core Y/Y CPI
    - ■ 3.3 vs 3.3 f'cast, 3.3 prev

- ○ Shelter CPI M/M
    - ■ 0.336 vs .382 prev

Market Movement Recap

09:04 AM   Weaker overnight and stronger after CPI. MBS up 7 ticks (.22) and 10yr down 0.5bps at 4.216.

10:30 AM   Giving up gains. MBS up only 3 ticks (.09) and 10yr up 1.8bps at 4.239

01:14 PM   Strong 10yr auction, but being traded in more of a "no whammies" kind of way. 10yr still up 2.3bps at 4.243 and MBS unchanged.

02:07 PM

Lock / Float Considerations

Wednesday's mid-day reversal for bonds raised questions for risk-tolerant clients who'd been waiting for a big enough reversal to serve as a lock cue. While the damage was minimal in outright terms, it brings yields to the highest level in 2 weeks and it does so against a data backdrop that would not necessarily justify such weakness. Risk averse clients have been and continue to be lock biased.

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

■ **30YR UMBS 5.5 3 Month**   ■ **10 Year Treasury**

MBS

30YR UMBS 5.5

30YR UMBS 6.0

30YR GNMA 5.5

15YR UMBS-15 5.0

US Treasuries

10 YR	4.267%	+0.046%
2 YR	4.151%	+0.013%
30 YR	4.474%	+0.062%
5 YR	4.131%	+0.036%

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