

MBS & TREASURY MARKETS

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MBS Recap: Why So Much Selling in Bonds?



Northeast Financial
LLC

www.northeast-mortgage.com
P: (844) 788-7237

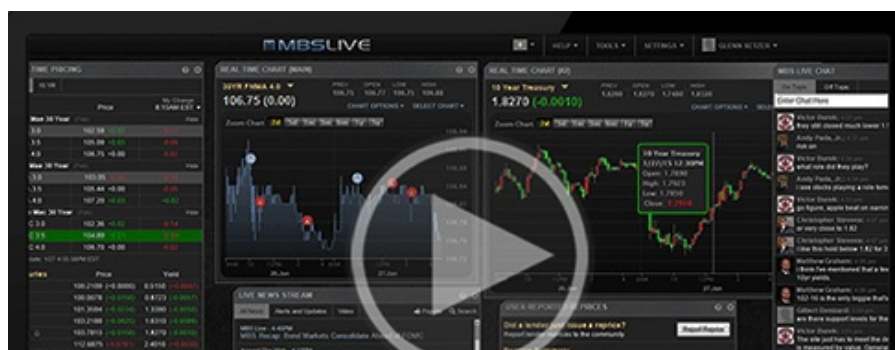
48 Meriden Rd, Suite 1
Middlefield CT 06455
NMLS# 117273



Why So Much Selling in Bonds?

MBS Recap | Matthew Graham | 4:55 PM

Without a doubt, it's been a frustrating and puzzling week for the bond market. Everyone knows that bonds have moved consistently higher in yield, but there is very little understanding and agreement about WHY that move has taken place. Europe had a rough week, but EU bonds didn't lose as much ground as US bonds, so we can't really stop there. We also know that econ data wasn't to blame (or if it was, traders bought bonds at first and then changed their minds later in the day--not typical behavior, to say the least). Beyond those considerations, we're left with guesses and possibilities that are much harder to substantiate and much more esoteric. These include things like year-end positioning constraints, a move to the sidelines before the Fed announcement, and curve trading driven by one of several factors.





Watch the Video

Alert

10:01 AM MBS Already Down More Than an Eighth of a Point

MBS Morning

11:42 AM Another Red Day. Is There Any Reason For Hope?

Alert

12:18 PM MBS Down Another Eighth From Previous Alert

Econ Data / Events

- Import Prices
 - 0.1 vs -0.2 fcast, 0.1 prev
- o Export Prices
 - 0.0 vs -0.2 fcast, 1.0 prev

Market Movement Recap

- 09:07 AM Initially slightly stronger overnight, then weaker with Europe. MBS down 2 ticks (.06) and 10yr up 1.5bps at 4.346
- 10:01 AM Additional weakness. MBS down 7 ticks (.22) and 10yr up 3.2bps at 4.362
- 12:18 PM More of the same. 10yr yields are up 5.8bps at 4.388. MBS down 10 ticks (.31).
- 03:10 PM Leveling off near weakest levels with MBS down 11 ticks (.34) and 10yr up 7bps at 4.40

Lock / Float Considerations

- Selling pressure hasn't been extreme, but it has been relentless. It's also occurred despite an absence of compelling economic data (i.e. bonds haven't been selling off due to strong data). All of the above make

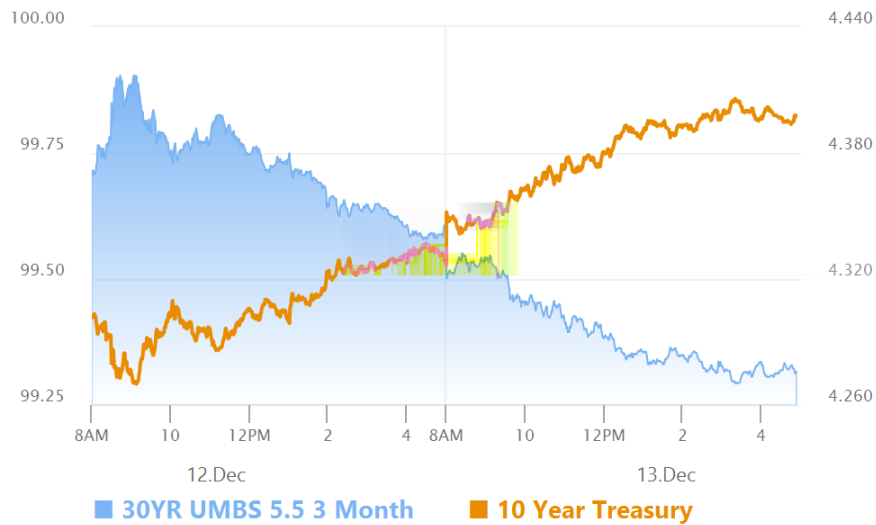
a case for a lock-biased stance until something changes (reassessing after next week's Fed announcement).

Technicals/Trends in 10yr (why 10yr)

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

- Floor/Resistance
 - o 3.99
 - o 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	4.398%	+0.068%
2 YR	4.247%	+0.055%
30 YR	4.602%	+0.056%
5 YR	4.250%	+0.073%

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