

MBS Recap: Not as Bad as it Could Have Been



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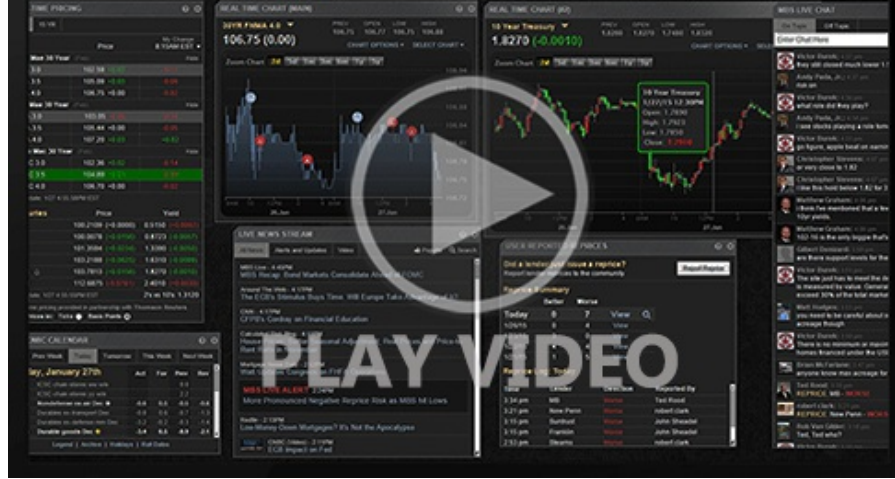
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Not as Bad as it Could Have Been

MBS Recap | Matthew Graham | 4:43 PM

After Wednesday's Fed-driven sell-off, it was unlikely if not impossible that bonds wouldn't end up saying they had a bad week. That is certainly still the case, but after Friday, it's not as bad as it could have been. PCE inflation came in at 0.1% at the core level, month over month. If inflation repeated that performance for 12 months, annual inflation would be below the 2.0% target. Headline inflation is even lower and has been doing even better in terms of getting back to a target trajectory. Bond traders are largely able to price in PCE data because a good amount of it can be calculated from CPI/PPI which come out 2 weeks earlier. There was still enough of a surprise for 10yr yields to drop a quick 6bps and ultimately end the day 4bps lower than yesterday.



Watch the Video

Update

8:34 AM PCE Cooler Than Expected. Bonds Rallying Modestly

MBS Morning

9:54 AM Stronger Start After Cooler PCE, But Don't Expect Miracles

Alert

1:52 PM MBS Down Just Over an Eighth From Highs

Econ Data / Events

- ○ M/M Core PCE
 - 0.1 vs 0.2 f'cast, 0.3 prev
- Y/Y Core PCE
 - 2.8 vs 2.9 f'cast, 2.8 prev

Market Movement Recap

- 09:25 AM Slightly stronger overnight with additional gains after PCE data. MBS up 11 ticks (.34) and 10yr down 6.8bps at 4.503
- 01:14 PM Generally stronger, but off the highs. MBS up 10 ticks (.31) and 10yr down 6.4bps to 4.507
- 01:52 PM Down just over an eighth from highs in MBS. 10yr down 6bps at 4.511

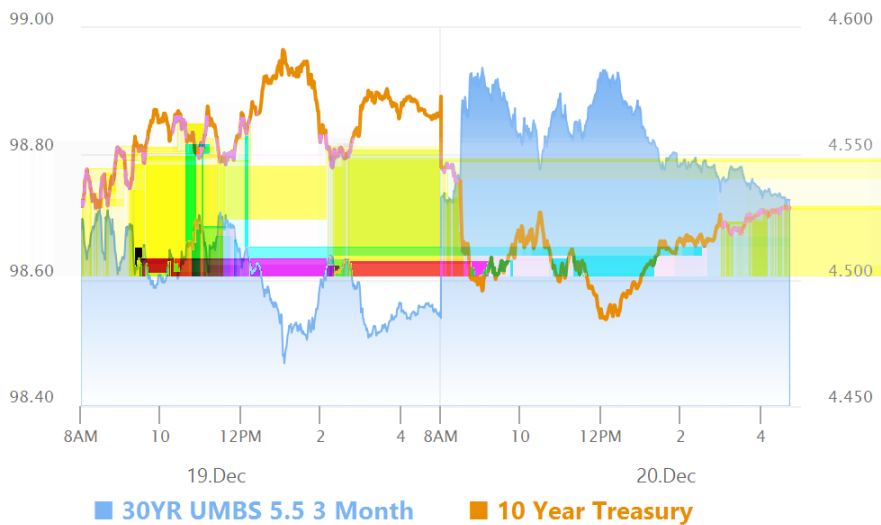
Lock / Float Considerations

- All bets are off until further notice following the Fed day rout. That said, it has been and continues to be the case that any meaningful improvement in rates will require downbeat economic data and softer inflation. At this point in the year, we're waiting until early January for the next major shoes to drop (NFP and CPI, specifically).

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.57
 - o 4.50
- Floor/Resistance
 - o 4.20
 - o 4.30
 - o 4.35
 - o 4.43

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	4.529%	-0.042%
2 YR	4.217%	+0.004%

2 YR	4.517%	+0.004%
30 YR	4.719%	-0.021%
5 YR	4.384%	-0.041%

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