

MBS & TREASURY MARKETS

Daily Coverage. Industry Leading Perspective.

MBS Recap: CPI Lived Up To Market Moving Potential And Then Some



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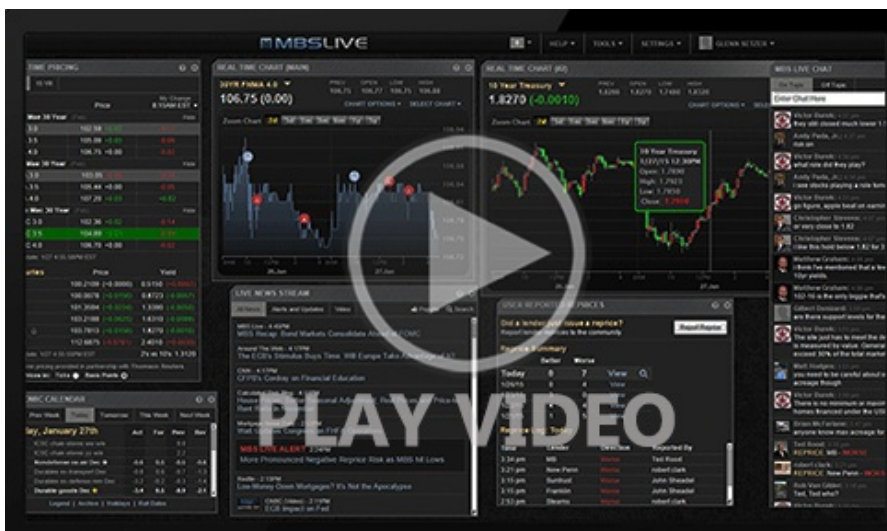


CPI Lived Up To Market Moving Potential And Then Some

MBS Recap | Matthew Graham | 4:59 PM

For every 14 or 15 times we approach a potential big-ticket market mover with a high degree of anticipation, days like today happen. In fact, it might be even more rare than that because bonds reacted even more forcefully than the data suggested. Case in point, Core M/M CPI came in at 0.2 vs 0.2 forecast and 10yr yields quickly dropped by 15bps and never rebounded. That's quite something and it either emphasizes the market's anxiety about getting hit with a double whammy today (after Friday's jobs report), the favorable composition of the data's internal components, or the fact that corrections are bigger than they otherwise would be when they follow long term high yields. The truth is likely a mix of all 3 factors

they otherwise would be when they follow long-term high yields. The truth is likely a mix of all factors. No one's complaining, but do keep in mind that this can't singlehandedly change the narrative, even if it can serve as an ingredient in that change.



Watch the Video

Update

8:33 AM Much Stronger After CPI Comes in Soft

MBS Morning

10:37 AM If You Needed Proof That Inflation Data is Back in Fashion...

Econ Data / Events

- ○ Monthly Core CPI
 - 0.2 vs 0.2 fcast, 0.3 prev
 - unrounded: 0.225 vs 0.240
- Annual Core CPI
 - 3.2 vs 3.3 fcast, 3.3 prev

Market Movement Recap

- 09:11 AM stronger overnight with additional gains after CPI data. MBS up half a point and 10yr down 12.3bps at 4.678
- 12:18 PM Gains holding up nicely. MBS up 18 ticks (.56) and 10yr down 14bps at 4.661
- 04:44 PM Remarkable absence of volatility following such a big move in the morning. MBS up 19 ticks

(.59) and 10yr down 14.8bps at 4.655... very little changed for the past 5 hours.

Lock / Float Considerations

- The well-received CPI data on Wednesday raises more questions than it answers, despite being a much-needed breath of fresh air. The risk-tolerant crowd could easily view it as reinforcing a ceiling that was already beginning to take shape over the past 2 days. Our baseline view on the market's reaction function remains unchanged: it will still take a decisive/cohesive shift in economic data for the rate trend to shift. A single friendly CPI report is only a small part of "cohesive," and a 0.2 vs 0.2 core m/m reading isn't exactly decisive, even if the market traded it that way.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.88
 - o 4.80
 - o 4.74
 - o 4.67
- Floor/Resistance
 - o 4.43
 - o 4.50
 - o 4.57

MBS & Treasury Markets



MBS

30YR UMBS 6.0

+

30YR UMBS 6.5

+

30YR GNMA 6.0

+

15YR UMBS-15 5.0

+

US Treasuries

10 YR	4.654%	-0.148%
2 YR	4.265%	-0.098%
30 YR	4.878%	-0.100%
5 YR	4.448%	-0.160%

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