

MBS & TREASURY MARKETS

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MBS Recap: What to Expect From Wednesday's Inflation Data



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What to Expect From Wednesday's Inflation Data

MBS Recap | Matthew Graham | 3:52 PM

Bonds lost ground overnight in sympathy with European bonds. The domestic session was almost perfectly flat and entirely uneventful. Powell's testimony was a complete non-event with no new concepts for anyone who's tuned in to the past few appearances. Wednesday brings the critical CPI data. There's plenty of anxiety over this one as early year inflation data is notoriously more difficult to forecast. That said, forecasts always do a perfect job of accounting for changes in annual CPI that result from older data falling out of the calculation (because that's just simple math, after all). In addition to forecasting difficulty, markets are also eager for clarity on whether inflation continues stalling at prevailing levels or begins to make renewed progress toward the 2% target. Needle-threading is always possible, but any major indication in one direction or the other will likely give rates a big push in the logical direction.





Watch the Video

MBS Morning

11:10 AM Bonds Retreat to Recent Range Ahead of Auctions, Powell, CPI

Market Movement Recap

- 11:34 AM Weaker overnight and mostly flat through Powell testimony. MBS down a quarter point and 10yr up 3.7bps at 4.531
- 01:23 PM No reaction to 3yr auction and little-changed from last update. MBS down just over a quarter point and 10yr up 4.1bps at 4.534
- 03:04 PM Modest attempt to rally into 2pm, but back to same levels now. MBS down a quarter point and 10yr up 4.4bps at 4.537

Lock / Float Considerations

- Yields are right in line with an often-revisited 4.53% technical level (the midpoint between the narrowest range of support/resistance at 4.50 and 4.57 seen from Jan 27 through Feb 4) ahead of the big CPI data. As always, there's no way to know which direction rates will move after CPI, only that it has a much higher chance of sparking a big reaction than almost any other economic report. Bigger dice, bigger bet required, bigger payout, same 50/50 odds.

Technical/Trends in 10yr (why 10yr)

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

Floor/Resistance

- 4.27
- 4.34

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 | 4.537% | +0.044% |
| 2 YR | 4.289% | +0.012% |
| 30 YR | 4.751% | +0.035% |
| 5 YR | 4.371% | +0.035% |

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