

MBS & TREASURY MARKETS

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MBS Recap: CPI Came in HOT and Bonds Reacted Logically



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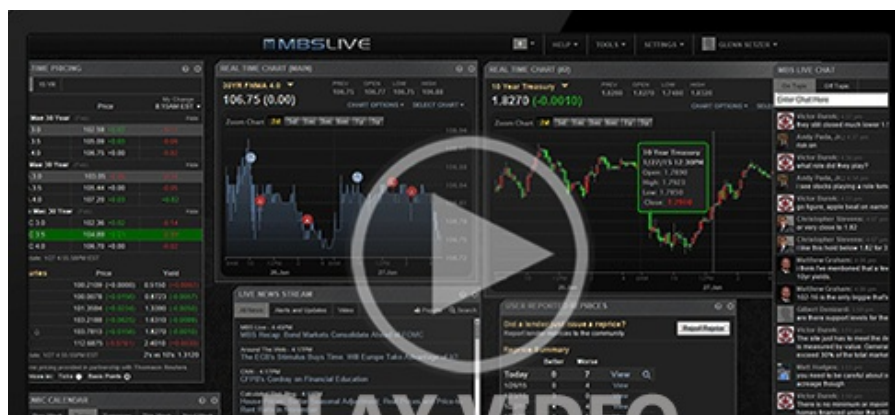
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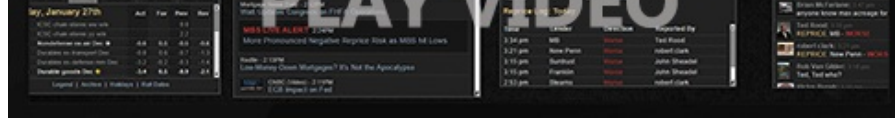


CPI Came in HOT and Bonds Reacted Logically

MBS Recap | Matthew Graham | 4:48 PM

There's remarkably little else to observe beyond this morning's initial commentary. Bonds did exactly what we would have expected based on the sharply higher inflation reading with 10yr yields popping about 10bps higher and MBS shedding 3/8ths of a point, if there's any new news, it's simply that bonds managed to avoid any major additional selling pressure after the initial push in the first 2 hours of trading. Yields are closing out the day right in line with the levels seen 10 minutes after CPI came out.





Watch the Video

Alert

8:34 AM Inflation Much Higher Than Expected. Bonds Tanking

MBS Morning

11:25 AM Bonds Obliterated (Relatively) by Sharply Higher Inflation

Econ Data / Events

- Core Monthly CPI
 - 0.4 vs 0.3 f'cast, 0.2 prev
 - unrounded, 0.446
- o Core annual CPI
 - 3.3 vs 3.1 f'cast, 3.2 prev

Market Movement Recap

- 08:38 AM Obliterated after CPI. MBS down almost half a point and 10yr up 11bps at 4.639
- 01:05 PM modest recovery heading into 10yr auction, but losing some ground afterward. 10yr up 11.1bps at 4.638. MBS down just over 3/8ths.
- 02:52 PM Still relatively flat after initial selling. 10yr up 10.7bps at 4.635. MBS down just over 3/8ths

Lock / Float Considerations

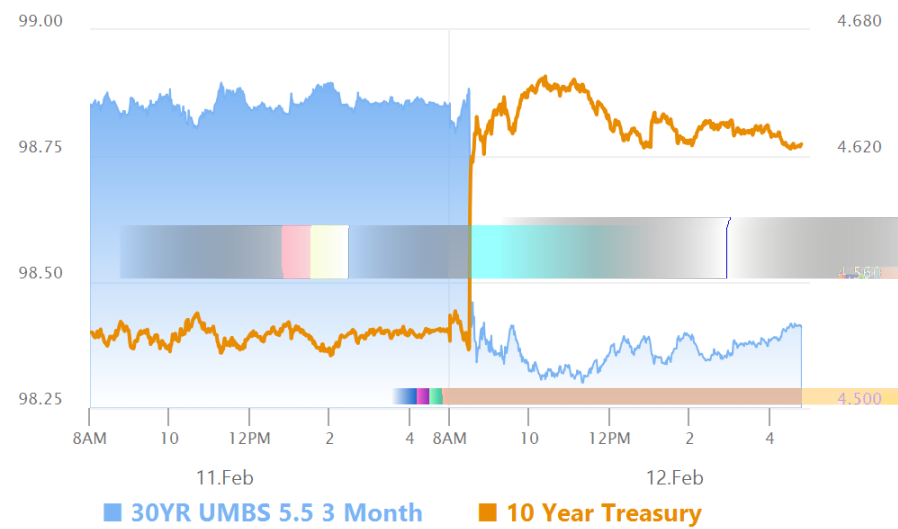
- Wednesday morning's CPI data (inflation MUCH higher than expected) means we should assume the path of least resistance for rates is "up" until proven otherwise. There will be an initial correction at some point that raises hope that selling has ended, and such corrections are rarely indicative of a lasting reversal of momentum.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.79
 - o 4.74
 - o 4.67

- Floor/Resistance
 - o 4.34
 - o 4.43
 - o 4.50
 - o 4.57

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	4.626%	+0.098%
2 YR	4.357%	+0.071%
30 YR	4.833%	+0.084%
5 YR	4.471%	+0.107%

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