

MBS & TREASURY MARKETS

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MBS Recap: What's Up With Today's Paradoxical Bond Rally?

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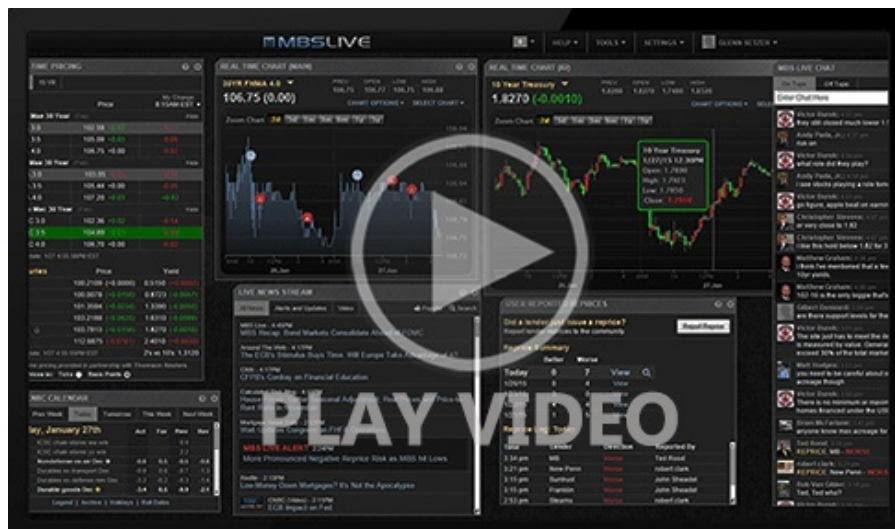
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What's Up With Today's Paradoxical Bond Rally?

MBS Recap | Matthew Graham | 4:36 PM

PPI may not be as heavy a hitter as CPI on average, but one could make a case for this week being one of the rare exceptions. Strikingly, PPI managed to HELP bonds despite the core annual number coming in much higher than expected. The catch is that January's numbers were in line with expectations. More importantly, the components of the PPI data that flow through to PCE inflation suggested bigger drop than expected when we get that data in 2 weeks (core PCE now seen around 0.25% for January as opposed to 0.35% before PPI). Today's rally didn't play out all at once like yesterday's sell-off. It gathered momentum heading into and out of the conclusion of this week's Treasury auction cycle. Nonetheless, PPI deserves most--if not all--of the credit for turning the tide.



MBS Morning

9:07 AM Decent Start Despite Higher Annual Producer Prices

Econ Data / Events

- ○ Core Producer Prices, M/M
 - 0.3 vs 0.3 f'cast
 - last month revised up to 0.4 from 0.0
- Core Annual Producer Prices
 - 3.6 vs 3.6 f'cast, 3.5 prev

Market Movement Recap

- 09:09 AM Modestly stronger overnight and gaining more ground after AM econ data. MBS up 6 ticks (.19) and 10yr down 5.8 bps at 4.567
- 12:54 PM Additional gains into the 30yr bond auction time frame. MBS up 3/8ths in 5.5 coupons and 10yr down 9.2bps at 4.533
- 03:09 PM More gains into 3pm, but bouncing a bit since then. MBS up 13 ticks (.41)

Lock / Float Considerations

- Not so fast, CPI! Thursday's PPI data--despite being as-expected for the month--suggested lower PCE inflation (to be reported in 2 weeks). This helped push back significantly against Wednesday's CPI driven spike, and went a long way toward bringing risk/reward back to a more neutral stance for those making lock/float decisions.

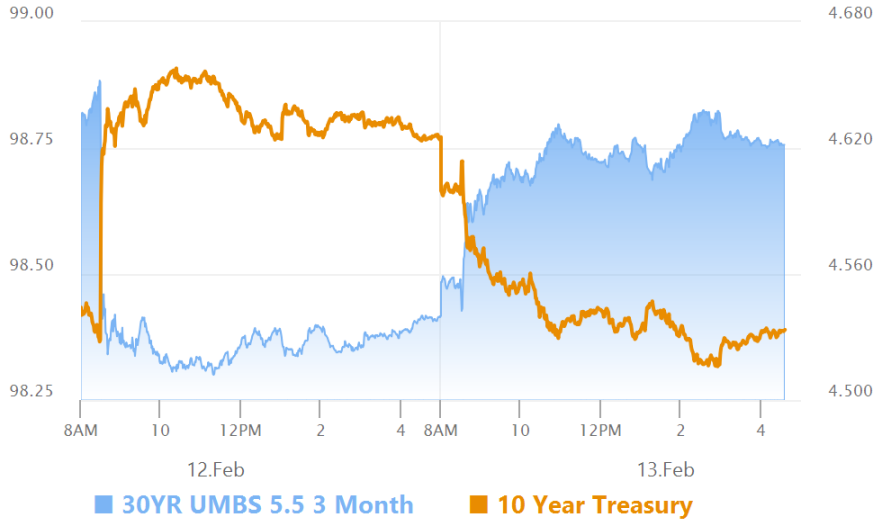
Technical/Trends in 10yr (why 10yr)

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

Floor/Resistance

- 4.34
- 4.43
- 4.50
- 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	4.533%	-0.092%
2 YR	4.309%	-0.040%
30 YR	4.760%	-0.076%
5 YR	4.392%	-0.075%

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