

MBS & TREASURY MARKETS

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MBS Recap: Paradoxical Rally Gets Logical After Retail Sales

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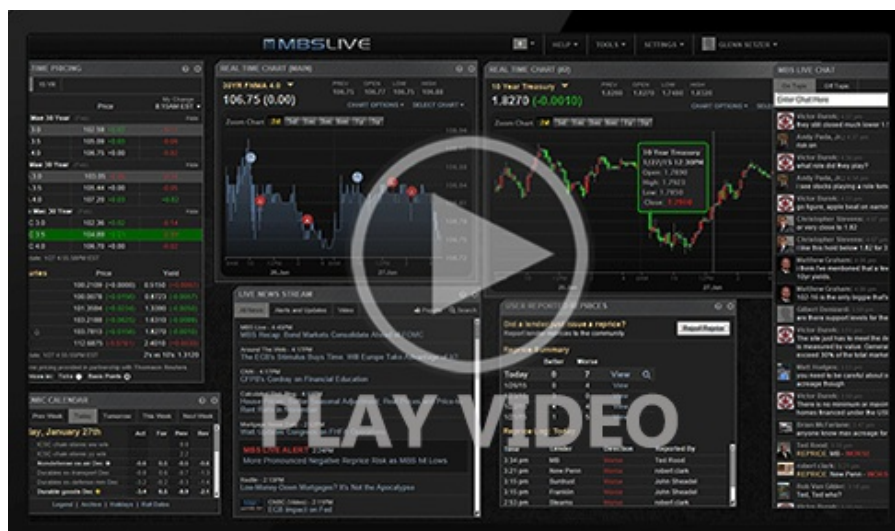
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Paradoxical Rally Gets Logical After Retail Sales

MBS Recap | Matthew Graham | 5:11 PM

If yesterday's PPI-driven rally was a paradox, today's continuation was quite the opposite. While it's not the most reliable market mover among economic reports, Retail Sales can occasionally go big. Today was such an example. Including or excluding the auto sector, sales dropped at the fastest pace in just over year and missed forecasts by the widest margin in several years. That provided a clear mandate for bond traders to press the happy button, ultimately ushering yields to the lowest levels of the week.



Watch the Video

8:33 AM Bonds Rallying After Weak Retail Sales Data

MBS Morning

11:53 AM Best Levels of The Week After Downbeat Data

Econ Data / Events

- ○ Retail Sales
 - -0.4 vs 0.3 f'cast, 0.4 prev
- Retail Sales excluding autos
 - -0.4 vs 0.3 f'cast, 0.7 prev
- Import Prices
 - 0.3 vs 0.4 f'cast, 0.2 prev
- Industrial Production
 - 0.5 vs 0.3 f'cast, 1.0 prev

Market Movement Recap

- 09:15 AM Roughly unchanged overnight and sharply stronger after retail sales data. MBS up 10 ticks (.31) and 10yr down 6.7bps at 4.465
- 01:40 PM Still mostly holding morning rally. MBS still up .31. 10yr down 5.9bps at 4.472
- 05:10 PM Sideways into the close with MBS only 1 tick (.03) lower than last time. 10yr yields ended down 5.6bps at 4.476

Lock / Float Considerations

- The combination of economic reports on Thursday and Friday completely erased Wednesday's CPI-driven concerns. To some extent, we could be seeing some **short covering** driving gains heading into a 3 day weekend (a minor lock-biased thought for those on a fence), but there's no denying the underlying economic argument after Retail Sales. Risk/reward was already essentially back to neutral on Thursday. Friday only added emphasis.

Technicals/Trends in 10yr (why 10yr)

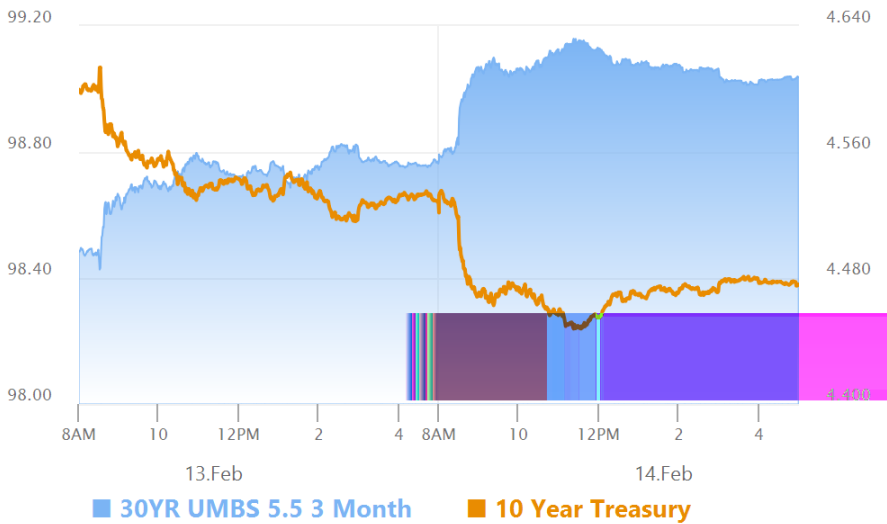
- Ceiling/Support (can be used as "lock triggers")

- 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	4.476%	-0.056%
2 YR	4.261%	-0.052%
30 YR	4.697%	-0.068%
5 YR	4.328%	-0.065%

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