

MBS & TREASURY MARKETS

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MBS Recap: Deep Dive on Today's Misunderstood Fed Comments

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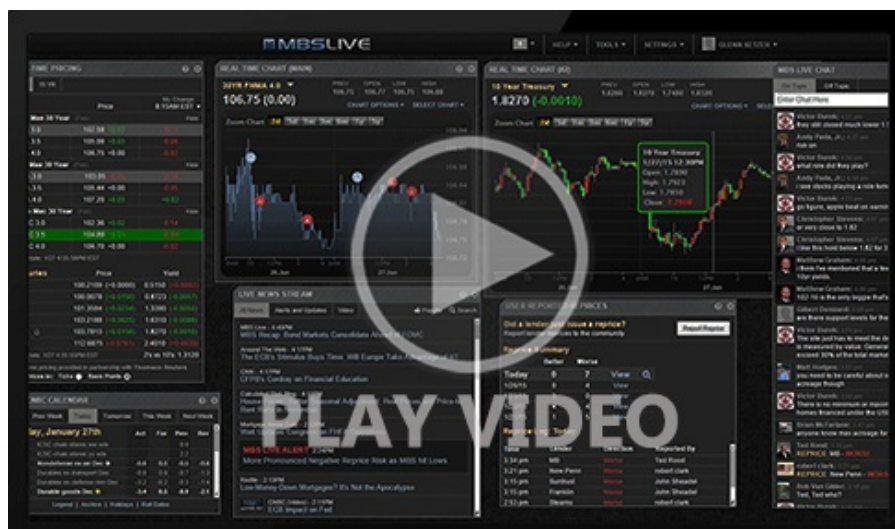
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Deep Dive on Today's Misunderstood Fed Comments

MBS Recap | Matthew Graham | 4:29 PM

Today's only potential big ticket event was the release of the minutes from the Fed's most recent meeting (3 weeks ago). These weren't very likely to cause a stir, but an odd inclusion caught the market's attention. In not so many words, it had to do with the potential for the Fed to pause its balance sheet run-off (something that would technically create net buying demand in bonds) in order to maintain enough of a balance sheet cushion to accommodate volatility associated with Treasury's account balance in the run up to the next debt ceiling showdown. While nothing has been decided yet, and while it would only be temporary, some traders viewed it as a short term opportunity and acted accordingly (by buying a few more bonds today).



MBS Morning

10:34 AM Stabilizing After Early Weakness; Do Fed Minutes Matter?

Econ Data / Events

- ○ NY Fed Manufacturing
 - 5.7 vs -1.0 f'cast, -12.6 prev
- NAHB Housing Market Index
 - 42 vs 47 f'cast, 47 prev

Market Movement Recap

- 11:17 AM Weaker overnight but bouncing back into positive territory in early trading. MBS up 2 ticks (.06) and 10yr down 0.1bps at 4.542
- 03:39 PM Zero reaction to Fed minutes at first, but then some buying owing to the notion of pausing balance sheet run-off pending further clarity on the debt ceiling. MBS up 6 ticks (.19) and 10yr down 2.2bps at 4.53

Lock / Float Considerations

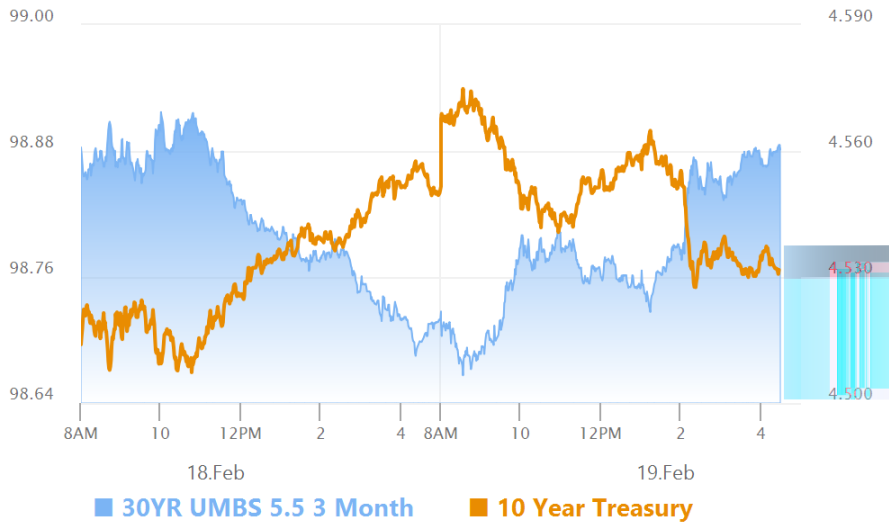
- We entertained the possibility that last week's strong close could have been driven, in part, by **short covering** heading into a 3 day weekend. That's all the more possible in light of the seemingly serendipitous losses at the start of the new week. Bonds are back in the stance of waiting for big ticket economic data which is in relatively short supply this week. Risk reward remains fairly neutral amid the lack of data

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - 4.79
 - 4.74
 - 4.67
- Floor/Resistance
 - 4.34

- 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	4.532%	-0.021%
2 YR	4.269%	-0.037%
30 YR	4.766%	-0.009%
5 YR	4.363%	-0.041%

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