

MBS & TREASURY MARKETS

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MBS Recap: Another Paradoxical Reaction to an Inflation Report



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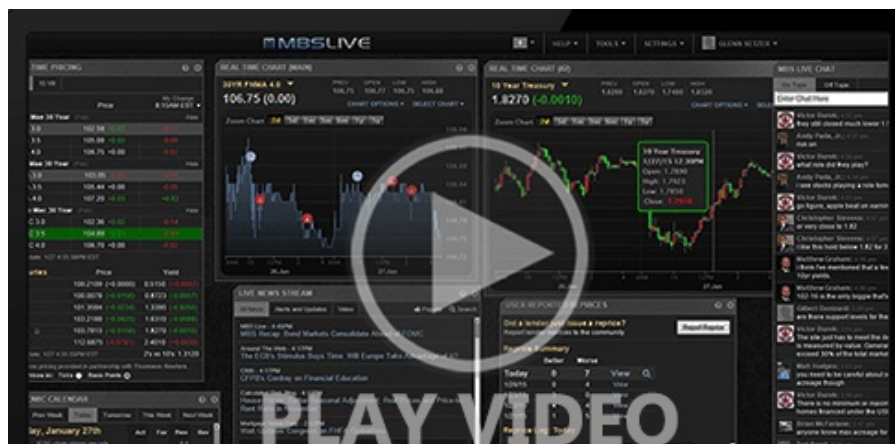
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Another Paradoxical Reaction to an Inflation Report

MBS Recap | Matthew Graham | 4:07 PM

For the 2nd month in a row, the market's reaction to a CPI/PPI report ended up being less about the report itself and more about its implications for the more highly regarded PCE inflation data. While we have to wait 2 weeks for official word on PCE, the CPI/PPI combination goes a long way toward revealing the outcome. In today's case, CPI suggested higher PCE inflation, so bonds ended up selling off, albeit modestly, despite core CPI coming in lower than expected. Thursday's PPI once again has the opportunity to punch above its typical weight for the same reason.





8:41 AM Mixed Reaction After CPI Comes in Lower

11:48 AM Why Aren't Bonds Happier About CPI?

Econ Data / Events

- ○ Core M/M CPI
 - 0.2 vs 0.3 f'cast. 0.5 prev
 - unrounded 0.2266
- Core Y/Y CPI
 - 3.1 vs 3.2 f'cast, 3.3 prev

Market Movement Recap

09:31 AM	Weaker overnight and mixed reaction to CPI (mostly ignored). MBS down 1 tick (0.03) and 10yr up 3.6bps at 4.316
12:46 PM	MBS up 1 tick (.03) and 10yr up 2.8bps at 4.308
03:41 PM	Fairly flat in the afternoon, despite some noise in both directions. MBS are unchanged and 10yr yields are up 3.6bps at 4.317

Lock / Float Considerations

- Through Wednesday, the bond market made it very clear that we're in consolidation mode after hitting resistance last week. So far, that's been mostly a sideways affair, but a breakout in either direction is possible. The real hope for a return to last week's lowest rates would be a favorable reaction to Thursday's PPI (or an even more massive stock market rout, perhaps). Failing that, or an equally compelling surprise, bonds aren't looking eager to challenge recent resistance.

Technical/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.57
 - o 4.50
 - o 4.40
 - o 4.34
- Floor/Resistance
 - o 4.05
 - o 4.12
 - o 4.19

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	4.316%	+0.036%
2 YR	3.990%	+0.047%
30 YR	4.635%	+0.037%
5 YR	4.074%	+0.043%

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