

MBS & TREASURY MARKETS

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MBS Recap: Stocks Save Bonds From Modest Losses

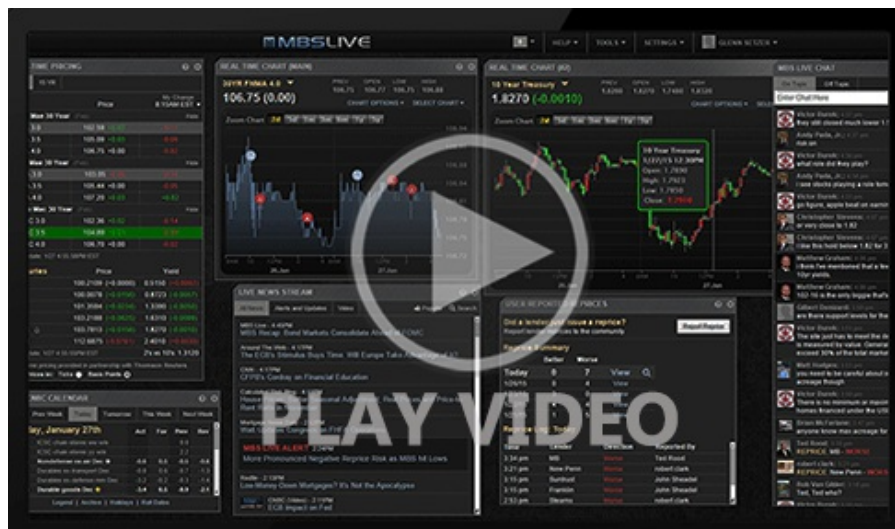


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Stocks Save Bonds From Modest Losses

MBS Recap | Matthew Graham | 4:23 PM

You won't always be able to count on the market dynamics we've seen over the past few weeks, but during that time, they've been pretty reliable. Specifically, steep losses in stocks have been helping the bond market more often than not, and today was another example. Bonds started out in slightly weaker territory after the PPI data suggested higher PCE inflation. PCE doesn't come out for 2 weeks, and PPI's top line numbers were good, but markets care more about PCE, hence the paradoxical reaction. Stocks began swooning in earnest in the 11am hour, and bond yields followed suit. After topping out at 4.35%, 10yr yields fell to 4.25+ before leveling off.



Watch the Video

8:41 AM Big Drop in Producer Prices. Mixed Reaction Due to PCE Implications

MBS Morning

10:40 AM Paradoxical Inflation Report Reaction, PPI Edition

Econ Data / Events

- ○ Monthly Core PPI
 - -0.1 vs 0.3 fcast, 0.5 prev
- Yearly Core PPI
 - 3.4 vs 3.5 fcast, 3.8 prev
- Jobless Claims
 - 220k vs 225k fcast, 222 prev

Market Movement Recap

- 08:44 AM Slightly weaker overnight with additional losses after paradoxical PPI suggests weaker PCE. MBS down and eighth and 10yr up 3.3bps at 4.344
- 11:28 AM Bonds moving into positive territory. No obvious motivations apart from stock market weakness and/or technicals. 10yr down almost 1bp at 4.305 and MBS unchanged.
- 02:54 PM Rally continued with stock selling and bounced with stocks. MBS up 2 ticks (.06) and 10yr down 3.6bps at 4.275

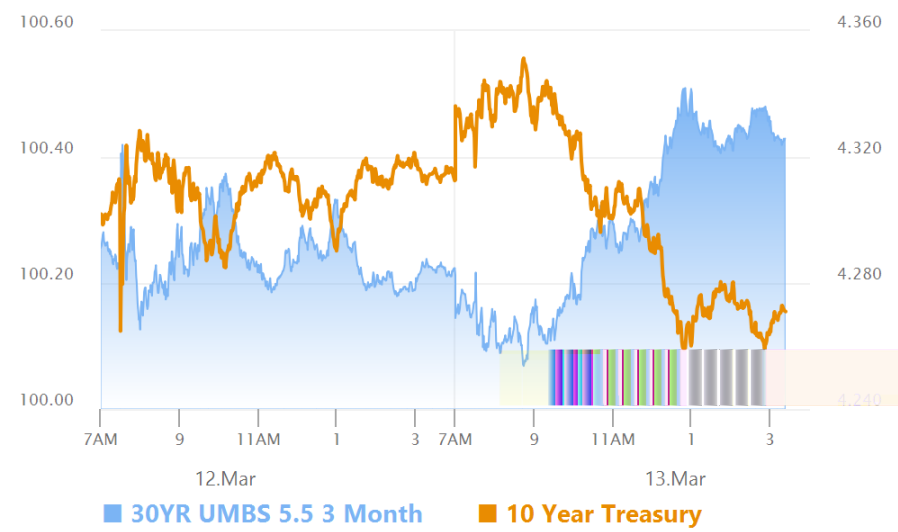
Lock / Float Considerations

- Bonds/rates have generally been in consolidation mode after hitting last week's low yields. That's been mostly a sideways affair, but a breakout in either direction is possible. With this week's important data out of the way, the biggest risks/opportunities are on hold until next week. Government shutdown headlines are a wild card. If they resolve in a way that benefits stocks, that could cause some selling in bonds.

Technicals/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	4.271%	-0.040%
2 YR	3.956%	-0.026%
30 YR	4.592%	-0.039%
5 YR	4.028%	-0.053%

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