

# MBS & TREASURY MARKETS

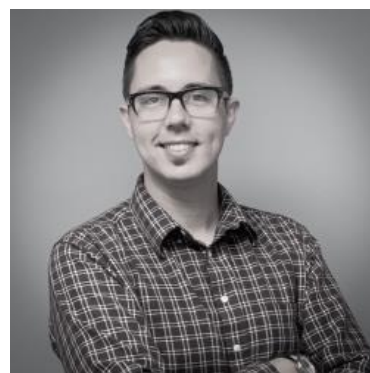
Daily Coverage. Industry Leading Perspective.

## The Day Ahead: Germany's Debt Increase and Treasury Consolidation

Recall 2 weeks ago that news of the incoming German Chancellor's ambitions to massively increase debt/spending led to the end of the bond rally in the US that took 10yr yields from 4.55 to 4.15%. The resulting bounce in US Treasuries was limited to roughly 15bps. Meanwhile, Germany's equivalent 10yr yields spiked 3 times as much, with the March 5th being the worst day for German bonds since 1989 (fall of Berlin Wall). At the time, it wasn't a given that the debt ceiling increase could pass muster in Germany's constitutional court and parliament, but as of this morning, it's a done deal. Thankfully, it seems markets already had this fully priced in.



Meanwhile, the US bond market's consolidation continues in stunningly perfect fashion ahead of tomorrow's Fed dot plot.



**Mike Hardy**

Mortgage Advisor

M: (562) 370-0544

6621 E. Pacific Coast Highway  
Long Beach CA 90803

NMLS #1175689

DRE #01326046



If you ask a technical analyst, the chart above is a classic consolidation (or triangle, pennant), and it carries one of several connotations. Some say they're predictive, but the only reliable prediction is that such consolidations can't last forever (after all, the white lines are about to converge). The Fed's dot plot probably has the power to cause a breakout in one direction or the other, but incoming economic data would have to agree with the move if it's to be sustained.