

MBS & TREASURY MARKETS

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MBS Recap: What's Up With The Big Bond Rally Despite Higher Inflation?



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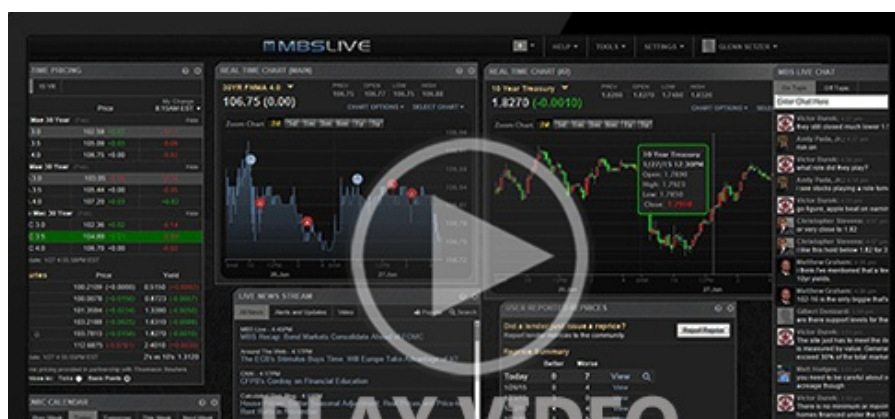
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What's Up With The Big Bond Rally Despite Higher Inflation?

MBS Recap | Matthew Graham | 5:14 PM

It was one thing when bonds were only modestly stronger after this morning's inflation data. But 10yr yields went on to drop 12.7bps to the day at the lowest levels of the week (4.235%) and MBS rallied nearly 3/8ths of a point. The magnitude of the additional improvement demands additional explanation. On a speculative note, it's a strong possibility that we're seeing month/quarter-end positioning play a role. On a more obvious note, stocks tanked and there's a strong tendency for friendly spillover to bonds when stocks sell this much.





8:42 AM Bonds Unfazed By Slightly Hotter PCE

9:34 AM Paradoxical Reaction to Slightly Higher Inflation

- ○ Core PCE M/M
 - 0.4 vs 0.3 f'cast, 0.3 prev
- Core PCE Y/Y
 - 2.8 vs 2.7 f'cast, 2.7 prev

08:43 AM	Stronger overnight and improving after PCE. MBS up 6 ticks (.19) and 10yr down nearly 6bps at 4.303.
01:30 PM	Rally continues. Stocks swooning. MBS up 10 ticks (.31) and 10yr down 11bps at 4.253
03:27 PM	Sideways and just off best levels. MBS up a quarter point and 10yr down 10.2bps at 4.259

Due to potential distortions from month/quarter-end trading, the momentum that we're seeing at the end of March shouldn't be taken as a sign of things to come in early April. If the resilience is to continue, it would require support from weaker economic data.

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	4.242%	-0.120%
2 YR	3.902%	-0.092%
30 YR	4.624%	-0.101%
5 YR	3.982%	-0.109%

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