

MBS & TREASURY MARKETS

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MBS Recap: Wild Round Trip Leaves MBS Weaker Despite Huge Initial Rally



Dena Rodriguez

Mortgage Banker, The Federal Savings Bank

www.thefederalsavingsbank.com/denarodriguez

P: (314) 451-2484

M: (830) 310-4939

drodriguez@thefederalsavingsbank.com

1 South 4th Street
Columbia MO 65201
1250387



Wild Round Trip Leaves MBS Weaker Despite Huge Initial Rally

MBS Recap | Matthew Graham | 5:18 PM

MBS ended Friday right about where they ended Thursday, and if that's all you got to know about the future on Thursday afternoon, it would have been good news. But as it stands, it could be a bit frustrating considering it means about 3/8ths of a point of weakness from AM levels. Moreover, there was no glaringly obvious motivation for the reversal, nor was there a similar reversal in equities. That leaves us to consider factors like traders moving to sidelines heading into the weekend and mid day headlines regarding Vietnam lowering tariffs on the U.S. (a proof of concept for de-escalation of trade war themes). MBS underperformance can be seen as a combination of Treasuries being the preferred safe haven for flights to safety, and also the only beneficiary of the Fed's QT tapering plans. Today's video dives deeper into these considerations, but the takeaway is that the week was a win overall, and that anything can change quickly when the market is taking cues from tariff-driven economic speculation.





Watch the Video

Update

8:38 AM NFP Much Stronger, But Unemployment Up; No Immediate Reaction

Alert

11:14 AM Weakest Levels After Vietnam Trade Headlines

MBS Morning

11:37 AM Huge Overnight Gains on Trade War Escalation; Jobs Report an Afterthought

Alert

1:46 PM Just a Bit More Weakness

Econ Data / Events

- ○ Jobless Claims
 - 219k vs 225k f'cast, 225k prev
- Continued Claims
 - 1.903m vs 1.860m f'cast, 1.847m prev
- ISM Services
 - 50.8 vs 53.0 f'cast, 53.5 prev
- ISM Employment
 - 46.2 vs 53.9 prev
- ISM Prices
 - 60.9 vs 62.6 prev

Market Movement Recap

- 08:26 AM Sharply stronger overnight. MBS up 3/8ths and 10yr down 13.5bps at 3.895
- 09:10 AM Losing some more ground now. MBS up only a quarter point and 10yr down 9.9bps at 3.93 (up from lows of 3.87)
- 01:46 PM weakest levels for Treasuries with 10s down only 5.2bps at 3.977. MBS at the weakest liquid levels of the day, still up roughly an eighth of a point, but down a quarter from highs.
- 04:40 PM Gains completely erased. MBS down 1 tick (0.03). 10yr still slightly stronger, at 3.996, but well off the lows.

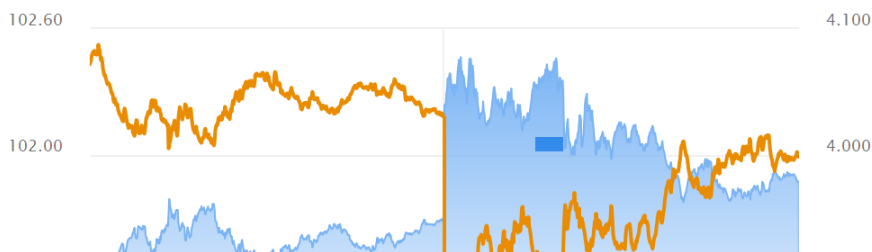
Lock / Float Considerations

- Bonds have been benefiting in a major way from hefty stock selling. There's a shelf life on that motivation as well as a risk of a reversal that can happen in a much more volatile way. In other words, it's not as if the rally is being driven by a confirmed shift in economic data. Instead, it's driven by an expectation about the impact of an idea that hasn't even been truly implemented, and one that could change on a whim. Floaters should proceed with caution.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.40
 - o 4.34
 - o 4.19
 - o 4.12
 - o 4.05
- Floor/Resistance
 - o 3.83
 - o 3.92
 - o 3.99

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 | 4.005% | -0.024% |
| 2 YR | 3.653% | -0.039% |
| 30 YR | 4.421% | -0.055% |
| 5 YR | 3.711% | -0.025% |

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