

MBS & TREASURY MARKETS

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MBS Recap: Explaining Monday's Wild Ride in The Bond Market



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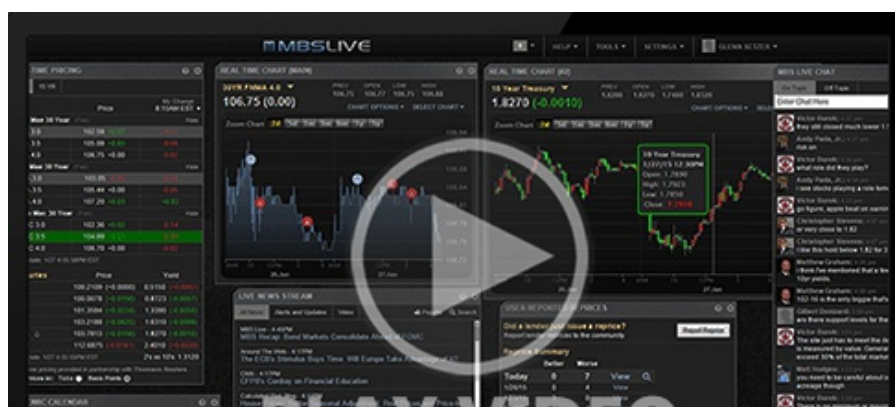
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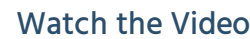
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Explaining Monday's Wild Ride in The Bond Market

MBS Recap | Matthew Graham | 5:46 PM

It was an extremely volatile, frustrating, and downright weird trading day for the bond market. After starting the overnight session near the lowest yields of the year, the rest of the day was dominated by heavy selling. Ask any market expert to predict today's movement based on a simple inventory of news and events, and a 17bp jump in 10yr yields would be on exactly zero bingo cards. That leaves us to try to piece together best guesses from a laundry list of potential contributors. These are detailed in today's video, but they include things like the inflation implications from trade policy, budgetary implications (lack of tariff revenue implies Treasury issuance), timid buyers ahead of this week's Treasury auctions, fear of reduced foreign bond buying, and a general move to cash as traders look for new opportunities created by recent chaos.





10:16 AM Bonds Routed on "Tariff Pause" Headlines

10:41 AM Much of The Recent Weakness Erased as Headline Labeled "Fake News"

12:02 PM Bonds Getting Hit From Tariff Updates, Real or Otherwise

1:11 PM New Lows; Ongoing Reprice Risk

- ○ 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

10:01 AM	Weaker overnight with more selling early. MBS down 3 ticks (.03) and 10yr up 6bps at 4.065
10:18 AM	Additional losses on "tariff pause" headlines. MBS down 3/8ths and 10yr up 14.4bps at 4.151
03:40 PM	Back to weakest levels of the day after a modest bounce. MBS down nearly 5/8ths and 10yr up 16bps at 4.165.

Lock / Float Considerations

- Monday served as a sobering reminder regarding our warnings from last week. Specifically, rallies that are built on expected future impacts of yet-to-be-implemented ideas are notoriously at risk of major reversals and ongoing volatility. This is doubly true with the aforementioned "ideas" are subject to potentially significant changes (as could be the case for the tariff rate on any given country before and after they choose to negotiate). That said, we still wouldn't chalk all of Monday's weakness up to tariff-related trading. Either way, the takeaway is the same: it makes more sense to be defensive until we see how Treasuries are doing after this week's auctions and inflation data.

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	4.185%	+0.179%
2 YR	3.761%	+0.108%
30 YR	4.622%	+0.202%
5 YR	3.867%	+0.156%

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