

MBS & TREASURY MARKETS

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MBS Recap: The Reasons May be Esoteric, But The Selling is Real



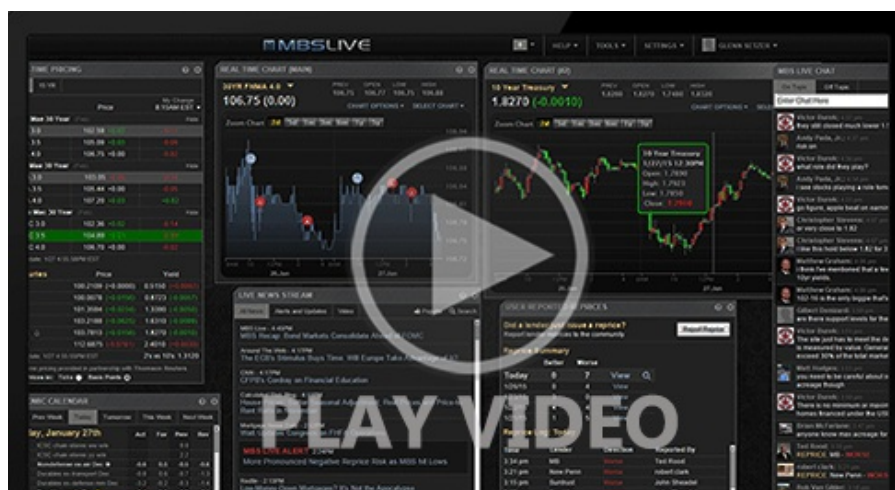
Matt Graham
Founder and CEO, MBS Live



The Reasons May be Esoteric, But The Selling is Real

MBS Recap | Matthew Graham | 5:07 PM

Bonds sold off today, in spite of a very bond-friendly CPI. One reason for that is the market's assumption that it will need to wait and see what tariffs do to inflation in the coming months. Another reason is the laundry list of reasons discussed in yesterday's recap. A new reason added to today's mix in the form of the passage of the budget framework in the House. As passed, there is \$1.5 trillion in spending cuts staked simply on reassurances from Johnson and Thune. Markets didn't love the implications for Treasury issuance. The long end of the yield curve (10yr, 30yr, etc) took most of the damage while Fed rate expectations keep the short end of the curve anchored (i.e. a 2yr Treasury won't drift too far above medium term Fed Funds Rate expectations). So bonds had selling to do and 2s weren't eligible, per se. Result: bigger sell-off than we otherwise would have seen in 10s/30s.



Update

8:34 AM CPI Drops Sharply. Bonds Adding to Overnight Rally

Alert

9:08 AM Bonds Now Weaker Despite CPI Beat

Alert

11:44 AM Negative Reprice Risk Increasing

MBS Morning

11:49 AM CPI Finally Drops Big, Just in Time to be Irrelevant

Alert

3:24 PM Negative Reprices Becoming Increasingly Likely

Econ Data / Events

- ○ Core MM CPI
 - 0.1 vs 0.3 f'cast, 0.2 prev
 - unrounded 0.057
- Core YY CPI
 - 2.7 vs 3.0 f'cast, 3.1 prev
- MM Headline CPI
 - -0.1 vs 0.1 f'cast, 0.2 prev
- Jobless Claims
 - 223k vs 223k f'cast, 219k prev

Market Movement Recap

- 11:19 AM Paradoxically modestly weaker after CPI data. MBS down 5 ticks (.16) and 10yr down 1.3bps at 4.34 (up from lows of 4.29+).
- 12:13 PM Weakest levels. MBS down nearly 3/8ths and 10yr up 2bps at 4.373
- 03:30 PM New lows, down almost half a point in MBS and up 5bps at 4.40 in 10yr yield.

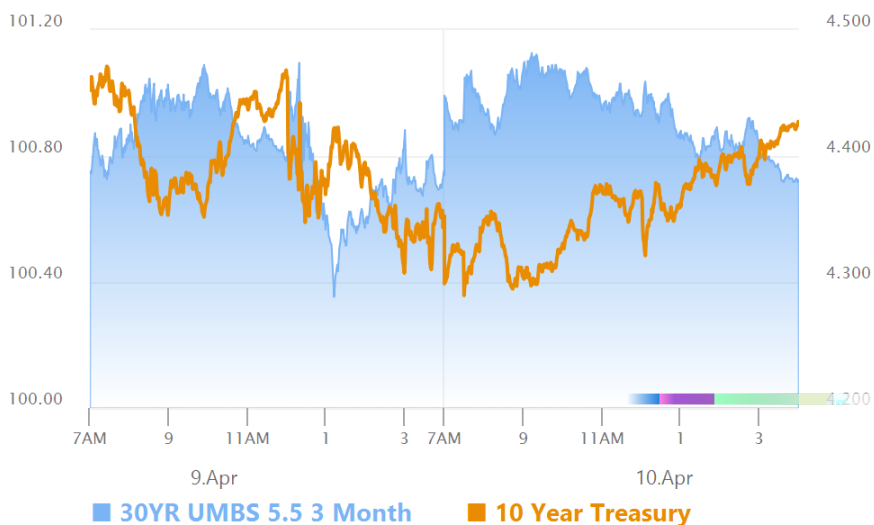
Lock / Float Considerations

- The current rate environment is one in which it makes absolutely no sense to assume that what you see today will be available tomorrow. It's not the worst-ever example of such a dynamic, and this doesn't mean we're immune from a friendly bounce, but it does mean that the weakness we've seen this week does not entitle bonds to a bounce simply for technical reasons. Data is in the back seat as well, so motivations are especially hard to predict and prepare for.

Technical/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.48
 - o 4.40
- Floor/Resistance
 - o 3.92
 - o 3.99
 - o 4.05
 - o 4.12
 - o 4.19
 - o 4.34

MBS & Treasury Markets



MBS

30YR UMBS 5.5
30YR UMBS 6.0
30YR GNMA 5.5

US Treasuries

10 YR	4.431%	+0.079%
2 YR	3.877%	-0.045%
30 YR	4.889%	+0.148%
5 YR	4.074%	+0.034%

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