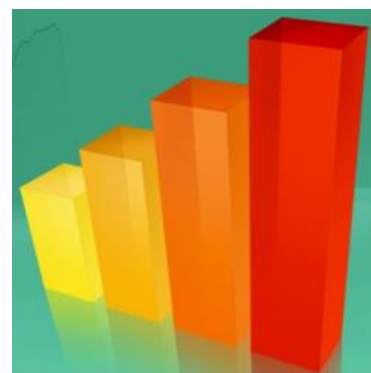


MBS & TREASURY MARKETS

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MBS Recap: Solid Bond Rally For Debatable Reasons



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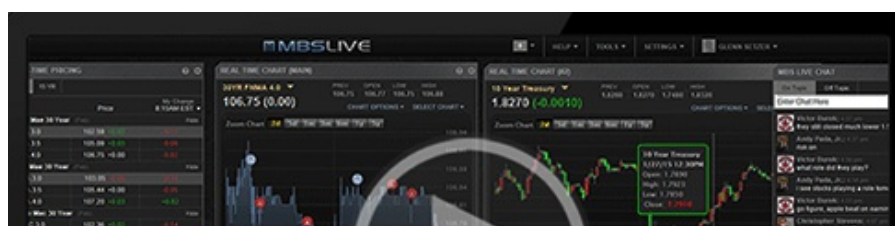
San Francisco CA 94123



Solid Bond Rally For Debatable Reasons

MBS Recap | Matthew Graham | 4:25 PM

Bonds improved moderately well overnight and added to those gains steadily during the domestic session. Ask 10 traders why and you might not get 10 different answers, but it would be at least 5. Improvement in the tariff outlook is a common refrain, but forex markets suggest that's not a huge motivation. Still, one could argue that a more sober approach is restoring some confidence for bond traders. One could also argue that traders are positioning for economic fallout with next week being the big week for econ data. Then there's the notion that moving through the Treasury auction cycle was helpful, but it's not as if traders didn't know that ahead of time. Last but not least, a comment from Fed's Hammack (saying the Fed could move in June) did align with some of this morning's improvement, but not in a way that accounts for an entire day's worth of gains. Perhaps we'll have to dust off the "no news is good news" thesis and simply conclude it makes sense for bonds to be consolidating in the pre-tariff range until we get a clearer sense of policy and the economy's response to it.





Watch the Video

Update

8:48 AM Overnight Gains and Uneventful Data

MBS Morning

12:19 PM Bigger Picture Starting to Look More Normal

Econ Data / Events

- ○ Jobless Claims
 - 222k vs 222k f'cast, 216k prev
- Continued Claims
 - 1841k vs 1880k f'cast, 1878k prev
- Durable Goods
 - 9.2 vs 2.0 f'cast, 0.9 prev
- Core Durable Goods
 - 0.1 vs 0.2 f'cast, -0.3 prev

Market Movement Recap

- 08:58 AM Stronger overnight with additional gains after uneventful data. MBS up a quarter point and 10yr down 6+bps at 4.32
- 01:09 PM No major reaction to ho-hum 7yr auction. 10yr yields down 7.7bps at 4.312 and MBS up 3/8ths of a point.
- 03:33 PM Best levels of the day. MBS up nearly half a point and 10yr down 8bps at 4.31

Look / Float Considerations

- Rates/bonds are still highly susceptible to big announcements on tariffs and other fiscal matters, but the willingness to panic is gradually subsiding as reality comes into focus as something likely less onerous than initially thought. We've also seen recent examples of a willingness to react to economic data, and we expect traders to focus heavily on any evidence of tariff-driven price pressure. Although volatility risks are somewhat lower than they were over the past 3 weeks, they're still elevated relative to the baseline. Broader momentum remains debatable and dependent on factors that have yet to be determined (persistence of inflation, economic impact of tariffs, fiscal policy).

Technicals/Trends in 10yr (why 10yr)

- **Ceiling/Support** (can be used as "lock triggers")
 - o 4.64
 - o 4.48
- **Floor/Resistance**
 - o 3.99
 - o 4.05
 - o 4.12
 - o 4.19
 - o 4.34
 - o 4.40

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 | 4.310% | -0.079% |
| 2 YR | 3.788% | -0.089% |
| 30 YR | 4.767% | -0.056% |
| 5 YR | 3.928% | -0.078% |

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