

MBS & TREASURY MARKETS

Daily Coverage. Industry Leading Perspective.

MBS Recap: Moody's Pulls Pin And Walks Away With 10 Minutes Left to Trade



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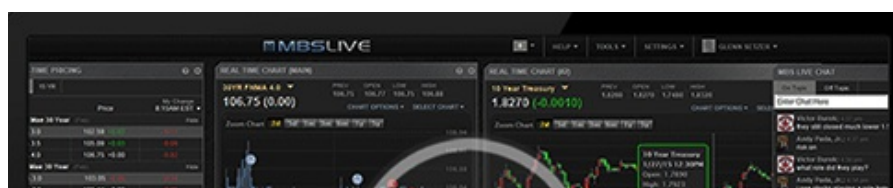
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Moody's Pulls Pin And Walks Away With 10 Minutes Left to Trade

MBS Recap | Matthew Graham | 5:25 PM

Bonds began the day stronger after a gentle overnight rally. Selling commenced at 9:30am for the 4th day in a row and picked up slightly after the highest reading on inflation expectations since 1981. Even then, losses were modest at best and bonds were generally flat/unchanged until the very end of the day. With carefully considered timing, Moody's pulled the pin and walked away with 10 minutes left to trade. The grenade in this case was a downgrade of the US credit rating. This move is certainly in the ratings agencies' playbooks amid congressional budget battles, but most notably all the way back in 2011. Also of note, Moody's was the last of the big 3 to have the US at a triple A rating, so while it's not the craziest thing that ever happened to bonds, the timing made for some last minute selling ahead of the 5pm cut-off.





Watch the Video

MBS Morning

10:34 AM Coasting Into The Weekend With Little Regard For Data

Alert

10:42 AM Down Just Over an Eighth From AM Highs

Alert

3:01 PM Negative Reprice Risk Increasing Slightly

4:47 PM

Alert

4:56 PM Losing More Ground After Moody's Downgrade

Econ Data / Events

- ○ Housing Starts
 - 1.361m vs 1.37m f'cast
- Import Prices
 - 0.1 vs -0.4 f'cast, -0.4 prev
- Consumer Sentiment
 - 50.8 vs 53.4 f'cast, 52.2 prev
- 1yr inflation expectations
 - 7.3 vs 6.5 prev

Market Movement Recap

10:04 AM modestly stronger overnight and slowly eroding so far. MBS up 2 ticks (.06) and 10yr down 2.8bps at 4.403

02:06 PM Sideways at weakest levels. MBS down 1 tick (.03) and 10yr up about half a bp at 4.437

05:03 PM additional weakness after Moody's downgrade. MBS down a quarter point on the day and 10yr up roughly 5bps at 4.479

Lock / Float Considerations

- Bonds/rates find themselves in the unpleasant position of not knowing where their next big impetus for improvement will come from. While it's true that rates can fall despite an obvious catalyst, this is nonetheless not a float-friendly environment. The only foreseeable exceptions would be for seriously weak economic data and another big dip in stocks.

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 | 4.478% | +0.047% |
| 2 YR | 3.994% | +0.021% |
| 30 YR | 4.959% | +0.068% |
| 5 YR | 4.091% | +0.037% |

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