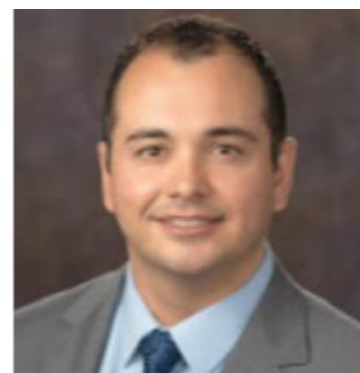


MBS & TREASURY MARKETS

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MBS Recap: (Un)Surprising Reversal After Initial Weakness



John Knowles

Mortgage Banker & Broker,
DCI Mortgage

www.dcmortgage.com

P: (408) 657-3780

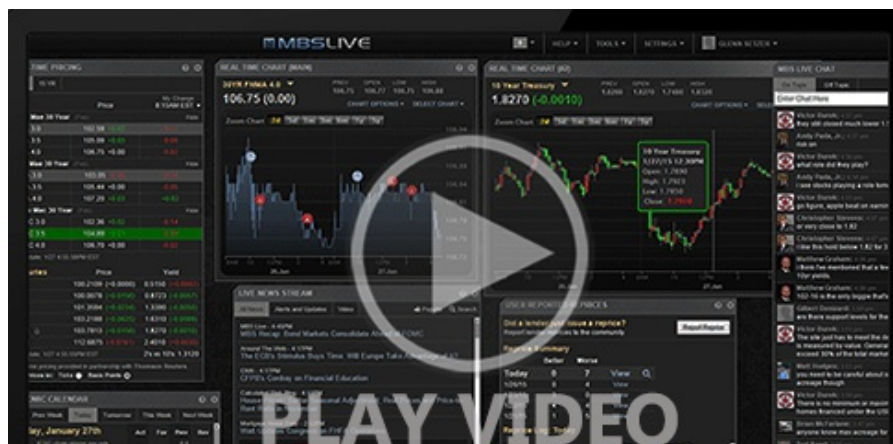
M: (408) 657-3780

4100 Moorpark Ave ste 122
San Jose California 95117
257332

(Un)Surprising Reversal After Initial Weakness

MBS Recap | Matthew Graham | 3:47 PM

The sharp overnight losses in stocks and bonds were consistent with a market that didn't have time to process the sort of knee-jerk reaction one would expect from headlines like Moody's US credit rating downgrade. Most of the rest of the domestic session was consistent with the type of reversal one might expect after a knee-jerk reaction to news that wasn't really that newsworthy. As has been exhaustively covered, 2 of the other big 3 ratings agencies had long since taken the US credit rating down a peg, thus limiting the true significance of Friday's news. Bonds ended the day weaker than they were at 3pm last Friday (before the Moody's news), but slightly stronger vs the 5pm levels (15 minutes after the Moody's news).





9:10 AM Global Bond Audience is Booing US Fiscal Performance

3:14 PM

08:36 AM	Sharply weaker overnight as Moody's reaction extends overseas. MBS down 3/8ths and 10yr up 7.3bps at 4.552
10:48 AM	Making progress after sellers got their fill. MBS down only an eighth and 10yr up only 2bps at 4.5
02:01 PM	Now moving into positive territory with MBS up 1 tick (.03) and 10yr roughly unchanged at 4.481

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.

- 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	4.460%	-0.020%
2 YR	3.973%	-0.031%
30 YR	4.924%	-0.035%
5 YR	4.066%	-0.021%

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