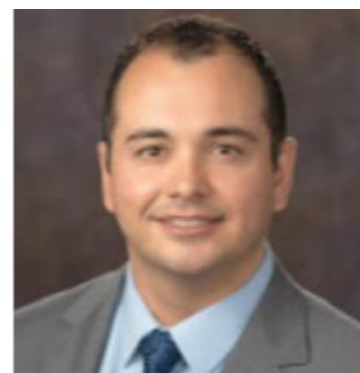


MBS & TREASURY MARKETS

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MBS Recap: Treasury Auction Blamed as Bond Vigilantes' Smoking Gun



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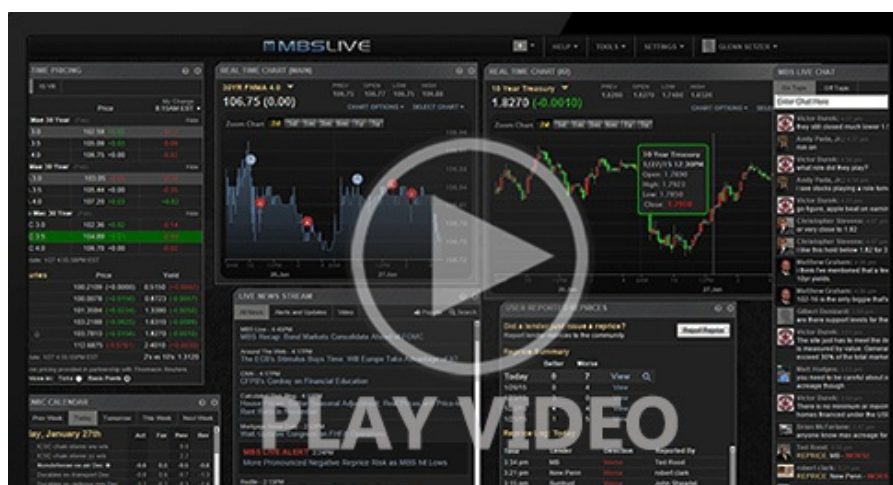
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Treasury Auction Blamed as Bond Vigilantes' Smoking Gun

MBS Recap | Matthew Graham | 4:32 PM

Vigilante justice! Taking matters into one's own hands! It's a sensational concept when applied to the bond market, but the term hasn't really done us many favors over the years. It happened to work for a headline today because the term is as over-the-top as the notion that today's 20yr auction was some magical "ah ha" moment leading to a massive reprimand of congressional budget negotiations in both stocks and bonds. In actuality, the auction was fairly average--certainly nothing that warranted the stock/bond swoon, but if markets were looking for an excuse to sell (a smoking gun?), it was one of the only options.



MBS Morning

10:50 AM Nothing For Bonds to Trade But Fiscal Disillusionment

Alert

1:17 PM Weakest Levels After 20yr Bond Auction

Alert

2:18 PM Negative Reprices Becoming Likely Despite Stabilization in Bonds

4:06 PM

Market Movement Recap

- 09:21 AM weaker overnight amid ongoing budget battle. MBS down just over a quarter point and 10yr up 5.3bps at 4.541
- 01:04 PM A bit weaker after 20yr auction. 10yr up 6.5bps at 4.553 and MBS down nearly 3/8ths.
- 02:37 PM Additional selling in both stocks and bonds. MBS down half a point and 10yr up 9.4bps at 4.582. Weakness looks to have stabilized for now though.

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 or a miraculous improvement in the debt issuance outlook.

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

- 4.05
- 4.12
- 4.19
- 4.34
- 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 | 4.590% | +0.103% |
| 2 YR | 4.014% | +0.046% |
| 30 YR | 5.081% | +0.104% |
| 5 YR | 4.155% | +0.088% |

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