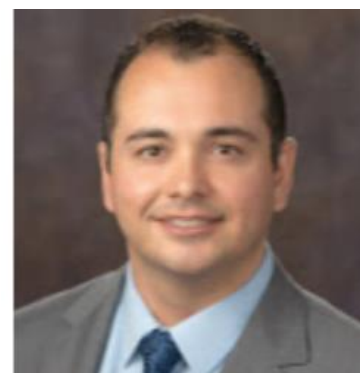


MBS & TREASURY MARKETS

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MBS Recap: Slightly Stronger Because Not Every Day Can be Weaker



John Knowles

Mortgage Banker & Broker,
DCI Mortgage

www.dcmortgage.com

P: (408) 657-3780

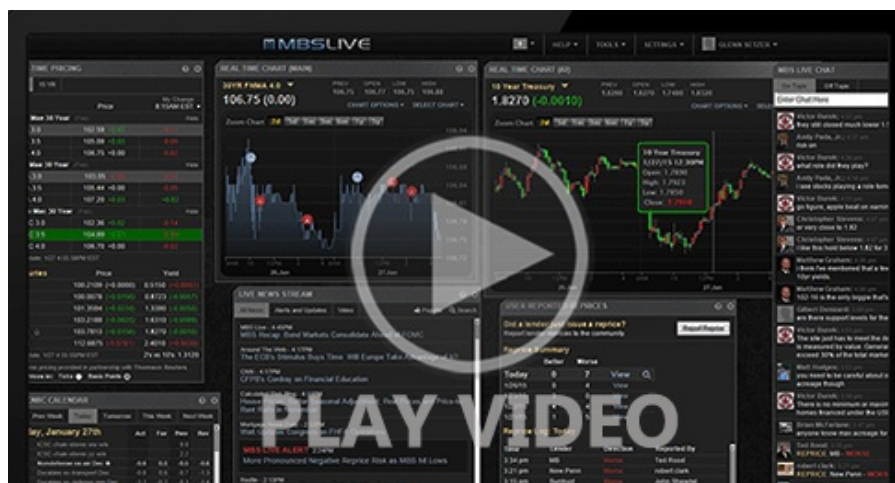
M: (408) 657-3780

4100 Moorpark Ave ste 122
San Jose California 95117
257332

Slightly Stronger Because Not Every Day Can be Weaker

MBS Recap | Matthew Graham | 4:36 PM

Bond yields have moved almost exclusively higher in May. At the very least, they've been in an incredibly linear uptrend. Uptrends wouldn't last very long if there wasn't some push and pull (think 2 steps forward, 1 step back). And that brings us to the best case for today's gains: sellers are taking a breath. Not every day can be a sell-off. To be sure, the gains weren't inspired by data or any new fiscal developments. We can attempt to force the mid-day pop to fit a fiscal narrative based on a comment on the Senate's time frame for a vote, but we could just as easily say it was position-squaring ahead of a holiday weekend with traders leaving at lunch time today and not coming back until the middle of next week.



MBS Morning

10:06 AM Conspicuous Absence of Volatility After Data and Spending Bill Vote

3:38 PM

Econ Data / Events

- ○ Jobless Claims
 - 227k vs 230k f'cast, 229k prev
- Continued Claims
 - 1903k vs 1890k f'cast, 1867k prev
- S&P Services PMI
 - 52.3 vs 50.8 f'cast, 50.8 prev
- S&P Manufacturing PMI
 - 52.3 vs 50.1 f'cast, 50.2 prev

Market Movement Recap

- 09:25 AM modestly weaker after spending bill passage, but back to unchanged in MBS now. 10yr down 1.3bps at 4.588
- 12:19 PM Nice rebound, perhaps on news that spending bill could take all summer. MBS up 6 ticks (.19) and 10yr down 6bps at 4.542
- 04:27 PM Heading out near best levels with 10yr down 6.3bps at 4.538 and MBS up nearly a quarter point.

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
 - 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	4.530%	-0.070%
2 YR	3.989%	-0.033%
30 YR	5.042%	-0.046%
5 YR	4.091%	-0.079%

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