

MBS & TREASURY MARKETS

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MBS Recap: Big Bond Rally After ADP and ISM



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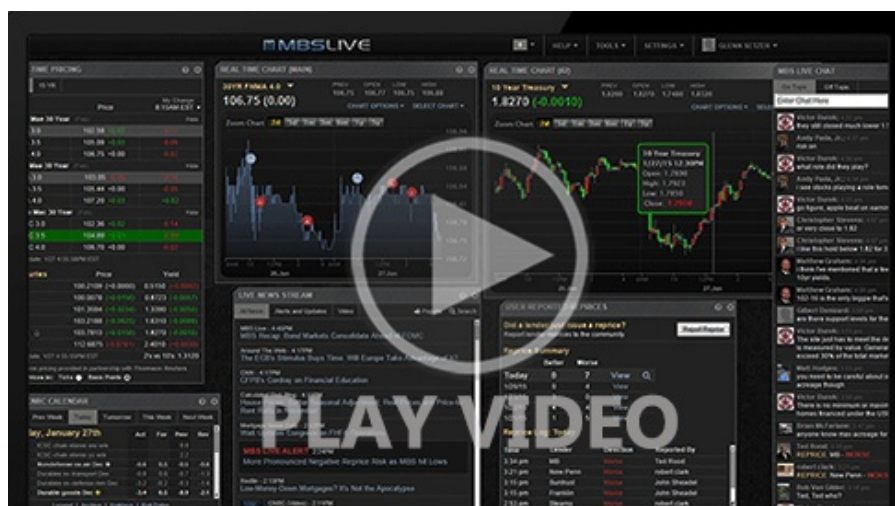
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Big Bond Rally After ADP and ISM

MBS Recap | Matthew Graham | 5:24 PM

We knew the onus was on weaker economic data to justify any decent drop in rates/yields and we know the first week of any given month has a high concentration of relevant reports and that today's slate is 2nd only to NFP day. Today's heavy hitters included ADP Employment and ISM Services. Both were weak--especially ADP. The employment component of the ISM report actually improved and that serves as a reminder that data doesn't always agree--especially if the sample size is a single month. If Friday's jobs report agrees with ADP, there's more room for improvement for rates. If NFP does like ISM's employment index and rises slightly from last month, bonds will likely have to give back some of today's gains. Future musings aside, it's nice to see the market is willing to do what it's supposed to do with this type of data.



Update

8:25 AM Small Improvement After ADP Employment Report

MBS Morning

10:28 AM Weaker Econ Data. Lower Yields

4:59 PM

Econ Data / Events

- ○ ADP Employment
 - 37k vs 115k f'cast, 62k prev
- ISM Services
 - 49.9 vs 52.0 f'cast, 51.6 prev
- ISM Prices
 - 68.7 vs 65.1 prev
- ISM Employment
 - 50.7 vs 49.0 prev

Market Movement Recap

- 08:26 AM stronger after ADP. MBS are up an eighth of a point and 10yr yields are down 4.6bps at 4.418.
- 10:37 AM Additional gains after ISM data. MBS up 10 ticks (.31) and 10yr down 8.3bps at 4.383
- 03:07 PM Giving up some ground but mostly sideways after additional gains. MBS up more than 3/8ths and 10yr down 10.3bps at 4.362

Lock / Float Considerations

- Rates have managed to find support at recent high yields after spending most of May moving decisively higher. Prevailing momentum has been cautiously bullish since May 22nd, but was just as easy to view as "sideways" until Wednesday's ADP/ISM econ data rally. The playbook for rates is unchanged: it takes legitimately weaker econ data to justify additional gains. With that in mind, Friday's jobs report is still

the main event. The market has likely taken a bit of a lead-off due to Wednesday's data, so a paradoxically high NFP number could hurt while a weaker report would have to be unequivocally so in order to keep the good times rolling for rates.

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	4.353%	-0.113%
2 YR	3.874%	-0.082%
30 YR	4.879%	-0.108%
5 YR	3.928%	0.005%

5 YR

3.928 %

-0.095 %

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