

MBS & TREASURY MARKETS

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MBS Recap: Nice Rally on Data and Auction Results



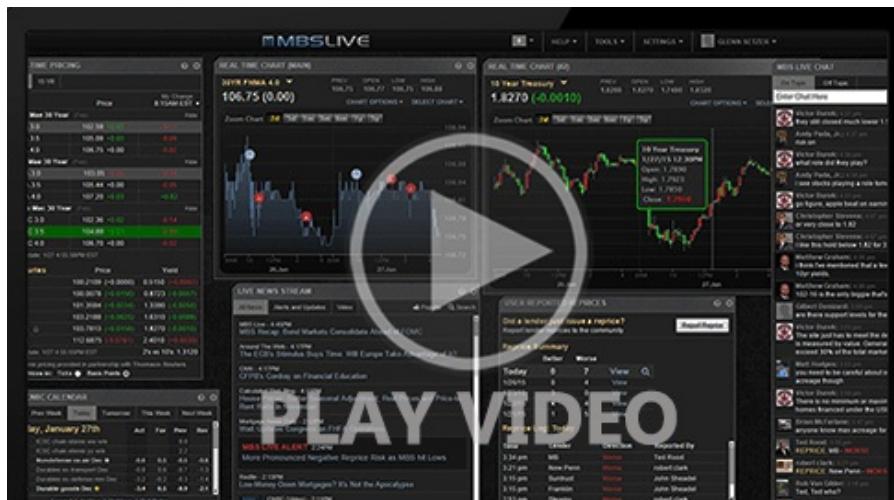
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Nice Rally on Data and Auction Results

MBS Recap | Matthew Graham | 4:16 PM

Wednesday ended up being a straightforward session for bonds with a large CPI beat prompting a decently swift rally in the bond market. Shorter maturities did the best--also logical considering the proximity to the Fed Funds Rate and the fact that Fed rate expectations rallied 8+ bps. But longer maturities got a bit more love after a well-received 10yr Treasury auction at 1pm. Respectable results on a day where bonds are already rallying are all the more respectable. With that, bonds hit new low yields for the day (MBS hit new highs) and neither strayed far after that.



Update

8:38 AM Inflation Tanks Enough For Bonds to Respond

MBS Morning

9:53 AM CPI Comes in Low Enough to Help

4:00 PM

Econ Data / Events

- ○ Core CPI m/m
 - 0.130 vs 0.3 f'cast, 0.2 prev
- Core CPI y/y
 - 2.8 vs 2.9 f'cast, 2.8 prev

Market Movement Recap

08:44 AM 10yr yields are down 3.7bps at 4.439 and MBS are up a quick quarter point.

01:03 PM Decent 10yr auction considering the AM rally. Bonds improving slightly as a result. 10yr down 5.6bps at 4.42 and MBS up 11 ticks (.34).

04:01 PM Near best levels in final hour. MBS up 3/8ths and 10yr down 6.1bps at 4.415

Lock / Float Considerations

- Bonds were refreshingly willing to respond to a big enough beat in CPI. After that, 10yr auction strength helped reinforce a generally supportive backdrop market by recent overhead 10yr yield highs (4.46-ish). If Thursday's PPI confirms the disinflationary momentum to the same extent, we could see an additional reaction, though not likely as big. The more relevant lock/float consideration is that many lenders are noticeably conservative relative to MBS and recent rate sheets (June 4th and 5th are good baselines). This is sometimes seen as an opportunity for risk-tolerant floaters, but it assumes bonds hold gains on Thursday, and that assumes PPI plays ball like CPI (and that's a coin toss).

Technical/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	4.416%	-0.060%
2 YR	3.943%	-0.081%
30 YR	4.912%	-0.017%
5 YR	4.012%	-0.078%

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