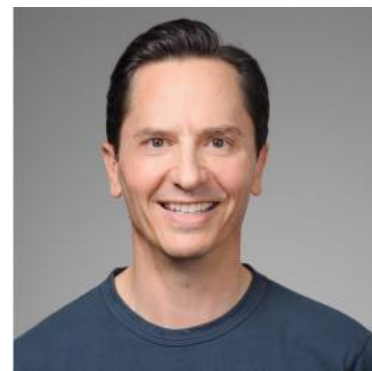


MBS & TREASURY MARKETS

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MBS Recap: Thursday's Data Offered No Objection to Overnight Rally



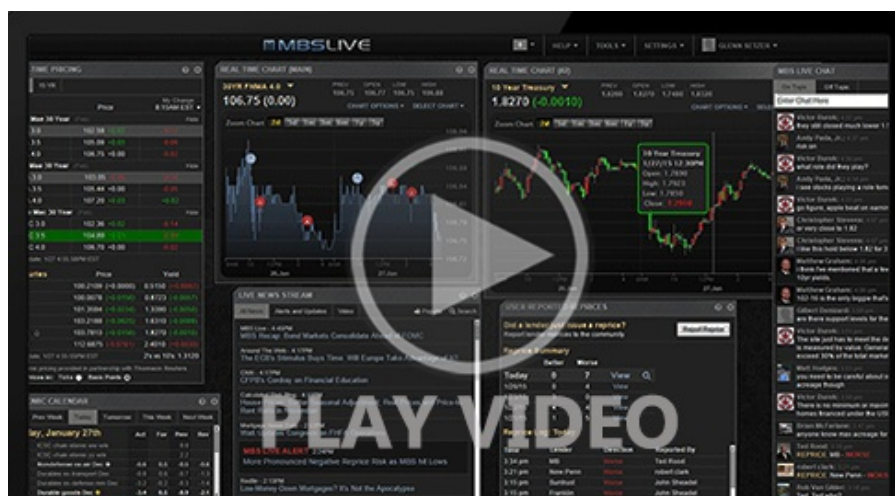
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Thursday's Data Offered No Objection to Overnight Rally

MBS Recap | Matthew Graham | 4:13 PM

Thursday's PPI was just as tame as Wednesday's CPI and, for a moment, it looked like bonds were going to offer an encore performance of the post-CPI rally. But in Thursday's case, bonds had already rallied nearly that much in the overnight session. We're inclined to view this through the lens of Thursday's data standing aside for the momentum created by Wednesday's data. In other words, CPI prompted a lead-off rally and PPI didn't push back in the other direction. We can also give some credit to Jobless Claims where the continued claim number pushed up to another cycle high. Yields didn't stray far from where they were 10 minutes after the morning's data.



Update

8:36 AM PPI Comes in Lower. Bonds Rallying Further

MBS Morning

10:02 AM Higher Bar For Additional Gains Despite Lower PPI

4:04 PM

Econ Data / Events

- ○ Core MM PPI
 - 0.1 vs 0.3 f'cast, -0.2 prev
- Core YY PPI
 - 3.0 vs 3.1 f'cast, 3.2 prev
- Monthly Headline PPI
 - 0.1 vs 0.2 f'cast, -0.2 prev
- Jobless Claims
 - 248k cs 240k f'cast, 248k prev
- Continued Claims
 - 1956k vs 1910k f'cast, 1902k prev

Market Movement Recap

- 08:36 AM MBS up a quarter point and 10yr down 6.2bps at 4.362 (most of these gains were before the data).
- 01:24 PM No sustained improvement despite decent 30yr auction. MBS up 9 ticks (.28) and 10yr down 5.5bps at 4.368
- 04:12 PM Heading out close enough to best levels with MBS up 9 ticks (.28) and 10yr yields down 6.7bps at 4.356

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).

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	4.356%	-0.067%
2 YR	3.907%	-0.041%
30 YR	4.836%	-0.082%
5 YR	3.963%	-0.059%

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