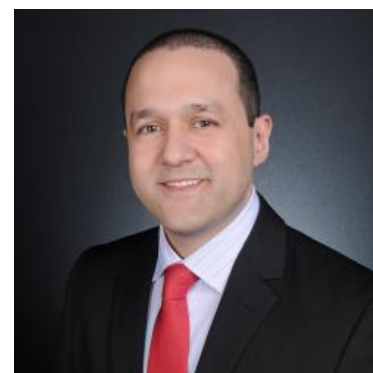


MBS & TREASURY MARKETS

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MBS Recap: The Trend is Friendly For Now



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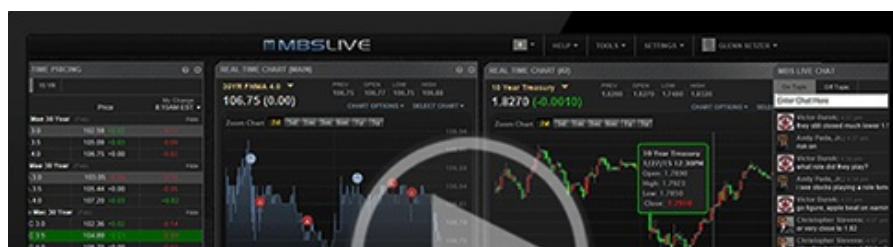
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The Trend is Friendly For Now

MBS Recap | Matthew Graham | 3:31 PM

A common financial market quip is that the "trend is your friend." We like to add the addendum: "until it's not anymore." All we can know for sure is that bonds have shifted from range-bound to trending lower in yield over the past 3-4 days and today was just another confirmation of that shift. What we can't know is when the next show of resistance will happen and whether that will merely be a speed bump before additional gains, or a sign to circle the wagons and get sideways again. Data wasn't necessarily a huge factor in today's improvement although it didn't hurt. Bonds have an underlying vigor for other reasons, as evidenced by a solid 7yr Treasury auction today, despite yields being at the lowest levels in more than a month. Today's video discusses some possible reasons for that.





Watch the Video

Update

8:38 AM Generally Stronger Data, But Not Much of a Reaction

MBS Morning

10:25 AM Tons of Data, But Not a Ton of Movement

3:20 PM

Econ Data / Events

- ○ Jobless Claims
 - 236k vs 245k f'cast, 246k prev
- Continued Claims
 - 1974k vs 1950k f'cast, 1937k prev
- GDP
 - -0.5 vs -0.2 f'cast
- Durable goods
 - 16.4 vs 8.5 f'cast, -6.6 prev
- Durables ex defense/aircraft
 - 1.7 vs 0.1 f'cast, -1.3 prev

Market Movement Recap

- 08:39 AM Bonds have moved just a hair weaker in response with MBS back to unchanged after being up 2 ticks (.06) and 10yr back to unchanged after being down just over 1bp at 4.283.
- 09:16 AM Quick reversal back into positive territory. MBS up 4 ticks (.125) and 10yr down 2.4bps at 4.265
- 12:32 PM Best levels of the day ahead of 7yr auction. MBS up 7 ticks (.22) and 10yr down 2.4bps at 4.265

Lock / Float Considerations

- Bonds have shifted from range-bound to trending lower in yield this week. Data is only partly able to explain the shift. The rest requires things like friendlier Fed comments and even regulatory changes that allow banks to hold more Treasuries. Even so, we suspect bonds are pricing in slightly weaker economic data ahead--something that will be very relevant next week given the typical early-month big ticket econ data (in condensed format due to the holiday). The longer the winning streak, the higher the odds of a bounce, but data will determine whether the bounce is a speed bump or intermediate turning point. CPI in 2 weeks is critically important as well.

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

MBS

| | |
|------------------|---|
| 30YR UMBS 5.5 | + |
| 30YR UMBS 6.0 | + |
| 30YR GNMA 5.5 | + |
| 15YR UMBS-15 5.0 | + |

US Treasuries

| | | |
|-------|--------|---------|
| 10 YR | 4.252% | -0.037% |
| 2 YR | 3.715% | -0.070% |
| 30 YR | 4.814% | -0.024% |
| 5 YR | 3.801% | -0.046% |

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