

MBS & TREASURY MARKETS

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MBS Recap: Modest Friday Bounce Does Little to Alter Bigger Picture



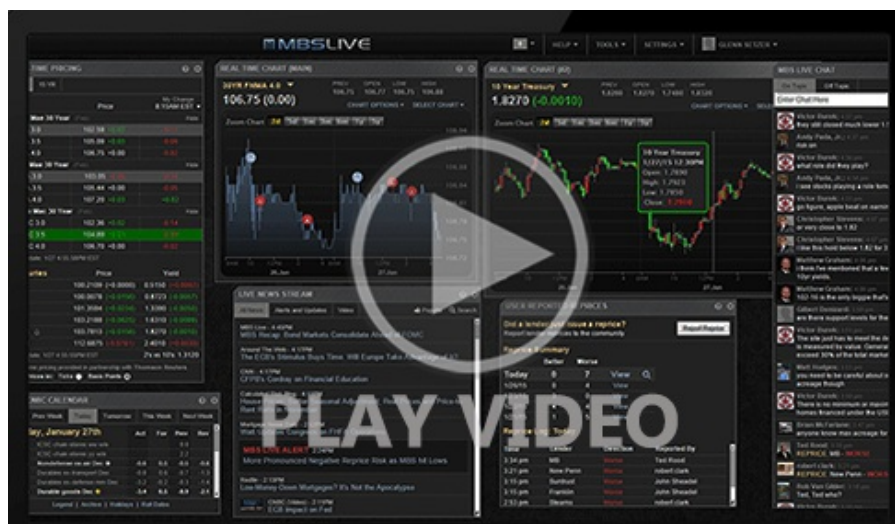
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MBSLIVE

Modest Friday Bounce Does Little to Alter Bigger Picture

MBS Recap | Matthew Graham | 3:24 PM

After a decent mid-day recovery, bonds gave up their gains heading into the 3pm close. It's a level of weakness that demands no explanation in the bigger picture--especially on a Friday afternoon of a week with a rally on every single previous day. Nonetheless, one could make a case for the bump by pointing to things like Senate moving closer to a spending bill vote with reports suggesting slightly more spending than before. Separate headlines involved Trump declaring an end to trade negotiations with Canada--something that might imply inflation pressure to some traders. Friday aside, the week's theme was one of lower Fed Funds Rate expectations and that will either be amplified or called into question by the key economic reports next week (as well as CPI the following week).



Update

8:38 AM PCE Inflation Slightly Higher, But No Major Reaction

Update

9:43 AM Down an Eighth From Highs

MBS Morning

10:04 AM Minimal Impact From PCE Data

1:32 PM

Alert

3:17 PM MBS Down Just Over an Eighth From Highs

Econ Data / Events

- ○ Core PCE M/M
 - 0.179 vs 0.1 f'cast
- Core PCE Y/Y
 - 2.7 vs 2.6 f'cast, 2.6 prev
- Inflation adjusted spending
 - -0.1 vs 0.1 f'cast, 0.2 prev
- Consumer 1yr inflation expectations
 - Down 0.1% m/m
- Consumer 5yr inflation expectations
 - Down 0.1% m/m

Market Movement Recap

- 08:50 AM Slightly weaker overnight and sideways to slightly stronger after data. MBS down 3 ticks (.09) and 10yr up 1.9bps at 4.254
- 09:43 AM 10yr yields are up 5bps at 4.286 and MBS are down 6 ticks on the day (0.19) and an eighth of a point from AM highs.
- 02:02 PM Decent recovery with 10yr nearly unchanged at 3.722 and MBS down 3 ticks (.09).

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

30YR UMBS 5.5

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

| US Treasuries | | |
|---------------|--------|---------|
| 10 YR | 4.286% | +0.050% |
| 2 YR | 3.746% | +0.027% |
| 30 YR | 4.848% | +0.048% |
| 5 YR | 3.836% | +0.034% |

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