

MBS Recap: Bonds Circle The Wagons Ahead of High Risk NFP



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Bonds Circle The Wagons Ahead of High Risk NFP

MBS Recap | Matthew Graham | 3:39 PM

The consensus for tomorrow's NFP (nonfarm payrolls, the principal component of the big jobs report) is 110k--not much of a downgrade from last month's 139k. The bond market has recently been trading as if it expects to see an even lower number--a fact that's not too surprising given the preponderance of other data that suggests a weaker labor market in June. The latest in that list was today's ADP employment report which completely whiffed (-35k vs 95k f'cast). Bonds initially rallied on that news, but didn't maintain the gains, possibly due to all of the preemptive rallying already in place over the past 2 weeks, and possibly because ADP is notorious for paradoxically diverging from NFP on any given month despite broad long-term correlation. Today's weakness was minimal in the bigger picture and could just as easily be viewed as part of a 2-day process of circling the wagons (pausing and modestly correcting a prevailing trend on the eve of high-consequence data).

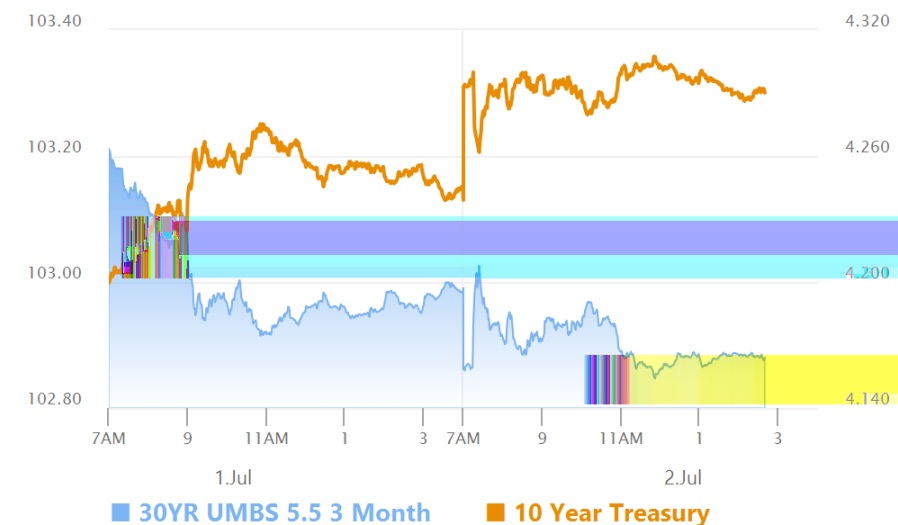
Lock / Float Considerations

- The past two trading sessions have effectively circled the wagons on the trail that has led 10yr yields from 4.4+ on June 20th to 4.2 yesterday morning. Even after accounting for the modest correction, there's still some asymmetric risk heading into Thursday's jobs report. Specifically, a purely as-expected result would still run the risk of pushing rates higher, all other things being equal. Either way, this is a high-consequence installment of the jobs report, with plenty of potential for a reaction in either direction.

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	4.290%	+0.051%
2 YR	3.788%	+0.011%
30 YR	4.821%	+0.053%
5 YR	3.871%	+0.031%

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