

MBS & TREASURY MARKETS

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MBS Recap: Big Market Reaction but Mortgages Outperform



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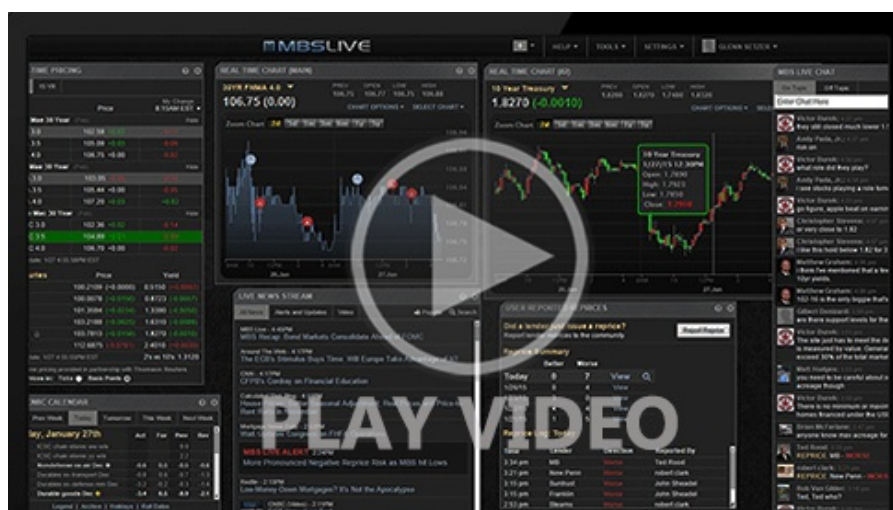
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Big Market Reaction but Mortgages Outperform

MBS Recap | Matthew Graham | 3:25 PM

Today's jobs report would have been bad for rates if it was even in line with expectations. After it came out stronger than expected (especially in terms of the unemployment rate at 4.1 vs 4.3 f'cast), it was off to the races for bond sellers. The short end of the yield curve has the most in common with Fed rate expectations, so it took the most damage, but MBS fared far better. Perhaps that has something to do with the government not issuing MBS to fund the just-passed spending bill or perhaps it is a nod to next week's uncertain levels of demand for the scheduled Treasury auctions. Either way, we won't complain. Friday is closed for the holiday, and next week may as well be a holiday because everyone's waiting for July 15th CPI.



Alert

8:33 AM Bonds Selling Off After Stronger NFP

MBS Morning

10:23 AM Jobs Report Comes in Stronger. Bonds React Logically

3:14 PM

Econ Data / Events

- ○ Nonfarm Payrolls
 - 147k vs 110k f'cast, 139k prev
- Unemployment rate
 - 4.1 vs 4.3 f'cast, 4.2 prev
- ISM Services
 - 50.8 vs 50.5 f'cast, 49.9 prev
 - prices: 67.5 vs 67.7 prev
 - employment: 47.2 vs 50.7 prev

Market Movement Recap

- 09:14 AM Sharply weaker after jobs data, but recovering somewhat. MBS down an eighth of a point and 10yr up 5bps at 4.33
- 02:24 PM Very flat after AM sell-off, and now closed for the day. MBS down 6 ticks (.19) and 10yr up 6.7bps at 4.347

Lock / Float Considerations

- Asymmetric risk was the right call heading into Thursday's jobs report. It didn't take a big beat to prompt a big sell-off. 10yr yields of 4.34% are right in line with the lower end of the range that was in place until June 24th. This may lessen the urge of the market to follow through on Monday, but follow-through is always a risk after a big NFP-driven move. All that having been said, the coming week is more of a placeholder ahead of the July 15th CPI data. From a pure strategy standpoint, the fact that rates didn't rise any more than they did on jobs report day presents a compelling lock opportunity for both risk tolerant and risk averse clients (something we almost never say)

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 | 4.347% | +0.067% |
| 2 YR | 3.883% | +0.095% |
| 30 YR | 4.863% | +0.055% |
| 5 YR | 3.937% | +0.070% |

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