

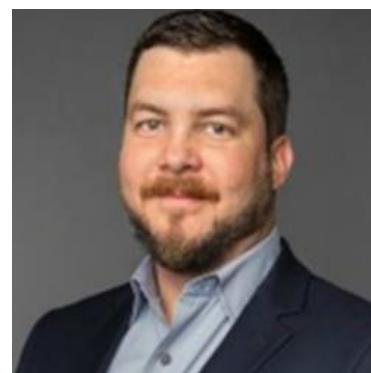
# MBS & TREASURY MARKETS

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## The Day Ahead: Slow Start; Light Calendar This Week

Fresh off the rally reversal courtesy of last week's jobs report, the bond market now finds itself in a virtually data-free week with little else to inspire big departures from prevailing levels. From last Thursday's early close, there's been remarkably little movement so far. This is all the more notable given the fact that Thursday was the heaviest day of selling in several weeks, arguably ending the rally trend from the 2nd half of June. It's always possible that unexpected developments will stir things up, but for now, the most obvious flashpoint on the horizon is next week's CPI data.

In terms of trading levels and trends, the end of the recent rally means we're waiting to see if we get a sideways holding pattern or full-blown reversal of momentum. The latter feels like it might require some more justification--at least if 10yr yields were to challenge higher technical ceilings at 4.50+. About 10bps below that, however, is a perfectly acceptable target for bonds to reset for the next big move (again, most likely driven--or at least confirmed--by next week's CPI). A break below 4.34 wouldn't be inexplicably bullish, but 4.29 would require some more concrete motivation.



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