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MBS Recap: What's Up With The Paradoxical CPI Reaction?



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What's Up With The Paradoxical CPI Reaction?

MBS Recap Matthew Graham | 4:07 PM

Heading into today's data, we knew there was a possibility of two separate reactions--one for the top line CPI numbers and one for a deeper look at the internal components. Those internals show that tariffs are having an impact even though it was a smaller impact than many forecasters were expecting. Bonds didn't seem to care at first. When a new glut of trades came online at the 9:30am NYSE open, that changed. Both stocks and bonds sold off sharply starting at 9:30am and this move looks far more convincing that the initial rally.

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Update

8:35 AM First Move is Stronger as Core CPI Comes in at 0.2 vs 0.3

MBS Morning

9:29 AM Tariffs Show Up in CPI, But Not Enough to Hurt

Alert

9:45 AM CPI Gains Erased Quickly At 9:30am NYSE Open

Aler	rt se la constant de
11:31 AM	Selling Continues; Reprice Risk Picking Up
3:19 PM	

Econ Data / Events

- • Core MM CPI
 - 0.228 vs 0.3 f'cast, 0.1 prev
 - Core YY CPI
 - 2.9 vs 3.0 f'cast, 2.8 prev
 - Headline MM CPI
 - 0.3 vs 0.3 f'cast, 0.1 prev

Market Movement Recap

- 08:36 AM after CPI 10yr yields are down 2.9bps at 4.406 and MBS are up an eighth
- 09:45 AM 10yr unchanged 4.434. MBS also unchanged and down just over an eighth from the highs.
- 11:29 AM weakness continues. MBS down 6 ticks (.19) and 10yr up 4.7 bps at 4.482
- 02:32 PM Steady, slight selling continues. MBS down 7 ticks (.22) and 10yr up 5.3bps at 4.488

Lock / Float Considerations

Tuesday's CPI put spin on the ball. Unfortunately, it was the wrong kind of spin for fans of low rates. Fortunately, it makes it a bit easier to pick a side in the lock/float debate until this wave of selling pressure subsides.

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Technicals/Trends in 10yr (why 10yr)
Ceiling/Support (can be used as "lock triggers")

4.64
4.48

Floor/Resistance

3.99
4.05
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- 4.05
- 4.12
- **4.19**
- 4.34
- **4.40**



MBS & Treasury Markets

10 YR	4.485%	+0.050%		
2 YR	3.952%	+0.043%		
30 YR	5.015%	+0.035%		
5 YR	4.047%	+0.058%		

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