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

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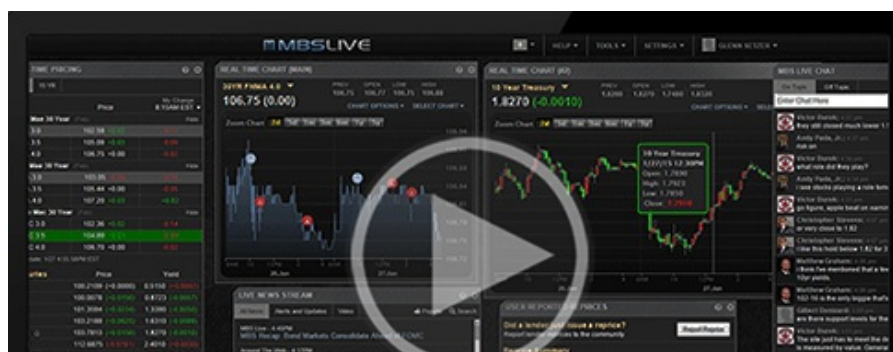Pers# 1098318
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What's Up With The Paradoxical CPI Reaction?

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.

[Watch the Video](#)

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

Alert

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.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
  - 4.64
  - 4.48

- Floor/Resistance
  - 3.99
  - 4.05
  - 4.12
  - 4.19
  - 4.34
  - 4.40

MBS & Treasury Markets

■ **30YR UMBS 5.5 3 Month**   ■ **10 Year Treasury**

MBS

30YR UMBS 5.5

30YR UMBS 6.0

30YR GNMA 5.5

15YR UMBS-15 5.0

US Treasuries

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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