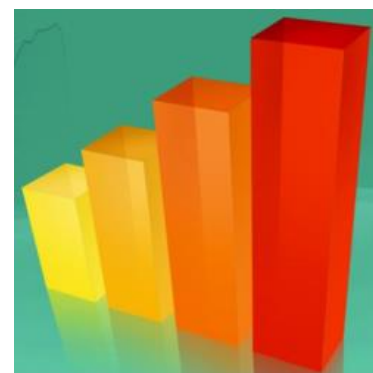


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MBS Recap: What's Up With The Paradoxical CPI Reaction?



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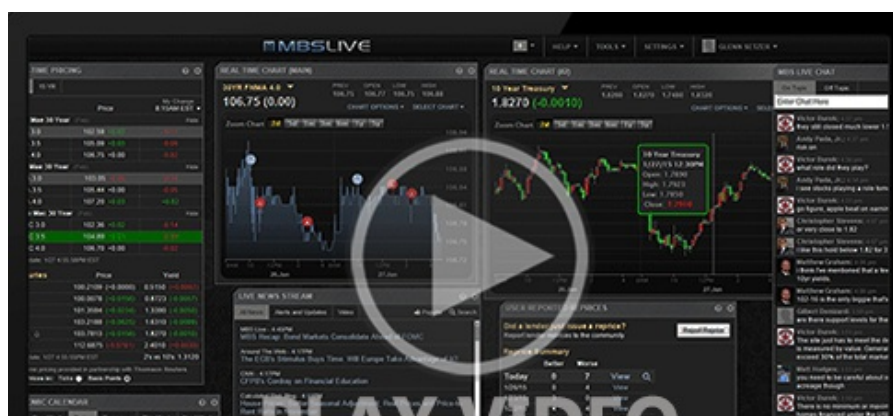
San Francisco CA 94123



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.





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

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

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

11:31 AM Selling Continues; Reprice Risk Picking Up

3:19 PM

- ○ 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

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")
 - 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 4.485% +0.050%

10 YR	4.485%	+0.030%
2 YR	3.952%	+0.043%
30 YR	5.015%	+0.035%
5 YR	4.047%	+0.058%

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