

MBS & TREASURY MARKETS

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MBS Recap: Bonds Give Free Preview of Post-Powell Momentum



jon gravitt

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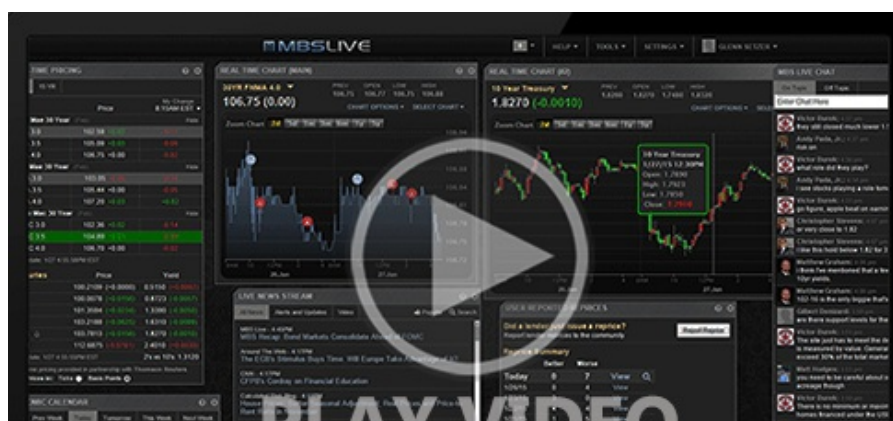
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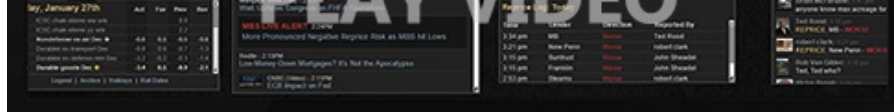
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Bonds Give Free Preview of Post-Powell Momentum

MBS Recap | Matthew Graham | 3:48 PM

Everyone loves a good free preview, but not all of the bond market enjoyed today's version. It involved reports that Trump was considering firing Powell. Forget the nitty gritty details because markets took it very seriously if volume is any indication (highest since tariff announcement week in April). Those who pay close attention were not-at-all-surprised to see longer-term yields RISING in response. After all, a more dovish Fed could only directly control overnight rates. This is enough to maybe help 2yr Treasuries and under, but from there on up, bonds price in higher inflation and lower global confidence in the dollar and US Treasuries. Trump later said he's not considering firing Powell, but bonds remained skeptical with 2yr vs 10yr spreads only reversing about half of the mid-day spike. This shows that traders felt a bit spooked about owning longer term debt in a world where something like this might actually happen, and thus re-allocated toward shorter-term debt for now. Scary-sounding stuff aside, 10yr yields and MBS both made solid enough gains on the day. All the drama transpired behind the scenes as far as rates were concerned (apart from a small handful of lenders who repriced for worse before repricing for the better).





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MBS Morning

10:21 AM PPI Reaction Playing Out Better Than CPI So Far

Alert

11:25 AM Some Selling on Trump/Powell Headlines

3:22 PM

Econ Data / Events

- Core PPI M/M
 - 0.0 vs 0.2 f'cast
 - last month revised to 0.4 from 0.1
- o Core PPI Y/Y
 - 2.6 vs 2.7 f'cast, 3.0 prev

Market Movement Recap

- 08:32 AM Slightly stronger after PPI. MBS up 3 ticks (.09) and 10yr down 2.4bps at 4.46
- 11:42 AM Bonds selling off on headlines regarding Trump considering firing Powell. MBS now unchanged on the day and 10yr nearly unchanged at 4.48
- 12:41 PM Headlines retracted, but bonds not retracing the weakness. 10yr still close to unchanged at 4.48. MBS up 2 ticks (.06) on the day

Lock / Float Considerations

- PPI did no harm, and this helps the risk/reward outlook balance back out following the negative reaction to CPI. That said, a more balanced outlook doesn't mean there's no risk. Thursday's Retail Sales numbers are certainly capable of moving the needle for better or worse. Other data and Fed speakers could exacerbate or push back against the resulting move. We also might want to account for the possibility that international investors will shorten durations in response to the Trump/Powell drama from Wednesday, but MBS are not at as much risk as, say, 10 and 30yr Treasuries.

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	4.453%	-0.032%
2 YR	3.885%	-0.064%
30 YR	5.014%	-0.011%
5 YR	3.986%	-0.054%

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