

MBS Recap: Bonds Firing on All Cylinders After Data and Treasury Supply



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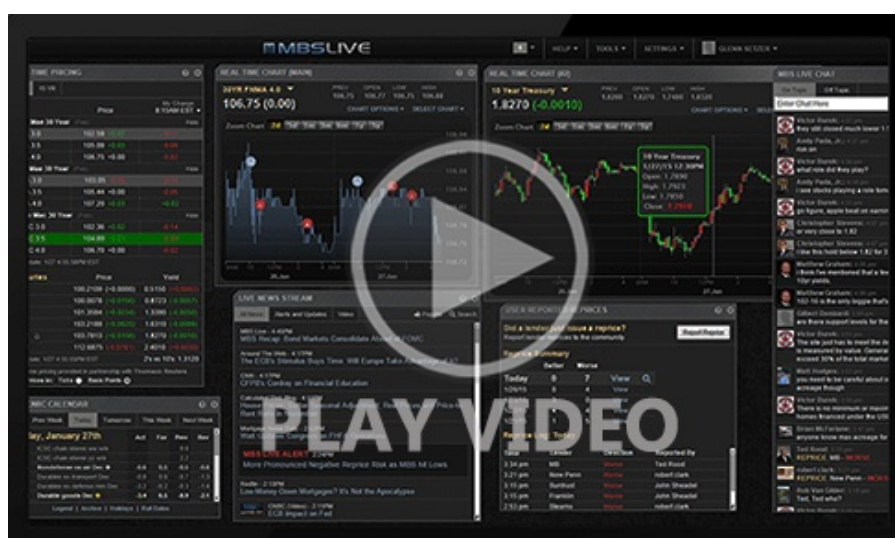
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Bonds Firing on All Cylinders After Data and Treasury Supply

MBS Recap Matthew Graham | 4:33 PM

The bond market was in flow state on Tuesday with decent overnight gains, steady buying after economic data, a strong 7-yr auction despite the rally, and additional buying after the 7-yr auction. It was as if every cue was a green light for buyers. This can be rationalized as a combination of decently friendly data and Treasury supply timing. Yesterday's auctions didn't benefit from the updated Treasury borrowing estimates. Also, those buyers weren't sure how today's auctions would go. By the time we got to today's 7-yr, we knew what the quarterly refunding announcement looked like, all the other auctions were out of the way, data was reasonably helpful, and we suspect some early month-end buyers thought the time was right to get what they needed for Thursday. Perfect little storm? Sure, why not? Continuation likely requires more friendly data tomorrow. Bonds won't want to take too big a lead-off ahead of NFP Friday without serious justification.



Watch the Video

MBS Morning

10:35 AM Relatively Friendly Labor Market Data Adding to Overnight Gains

3:55 PM

Econ Data / Events

- ○ Wholesale Inventories (m/m)
 - 0.2 vs -0.1 f'cast, -0.3 prev
- Case Shiller Home Prices (y/y)
 - 2.8 vs 3.0 f'cast, 3.4 prev
- Case Shiller 20-City (m/m)
 - 0.4 vs 0.8 prev
- FHFA Home Prices (m/m)
 - -0.2 vs -0.1 f'cast, -0.3 prev
- FHFA Home Prices (y/y)
 - 2.8 vs 3.2 prev
- Consumer Confidence
 - 97.2 vs 95.8 f'cast, 95.2 prev
- Job Quits (lower is better)
 - 3.142m vs 3.27m prev
- Job Openings (lower is better for rates)
 - 7.437m vs 7.55m f'cast, 7.712m prev

Market Movement Recap

- 09:55 AM modestly stronger overnight with additional gains at 930am NYSE open. MBS up 3 ticks (.09). 10yr down 3.9bps at 4.374
- 11:14 AM stronger after data. MBS up 6 ticks (.19) and 10yr down 6.2bps at 4.351
- 01:07 PM Additional gains after 7yr auction. MBS up 10 ticks (.31) and 10yr down 8.2bps at 4.331
- 03:41 PM heading out at best levels. MBS up 11 ticks (.34) and 10yr down 9bps at 4.323

Lock / Float Considerations

- Tuesday was a strong day for the bond market on several fronts (good reaction to data, strong Treasury auction despite AM rally, additional rally after auction). Lenders repriced but likely still have a cushion in the average case. This creates a rare asymmetric risk in favor of floaters, but it should always be noted that bonds could easily lose enough ground to completely erase the friendly imbalance. Whether or not it happens really depends on data.

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	4.323%	-0.090%
2 YR	3.869%	-0.052%
30 YR	4.861%	-0.099%
5 YR	3.900%	-0.072%

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