

MBS & TREASURY MARKETS

Daily Coverage. Industry Leading Perspective.

MBS Recap: Markets Expected More Dovishness From Powell



Jeffrey Chalmers

Senior Loan Officer,
Movement Mortgage
Licensed: CA, FL, MA, ME,
NH, VT

ClicknFinance.com

M: (774) 291-6527

99 Rosewood Dr, Suite 270
Danvers MA 01923

NMLS #76803

NMLS #39179



Ashley Gendreau

Buyer & Listing Expert,
LAER Realty Partners

www.AshleyGendreau.com

P: (603) 685-4495

M: (603) 361-0561

agendreau@laerrealty.com

173 Chelmsford Street
Chelmsford MA 01824

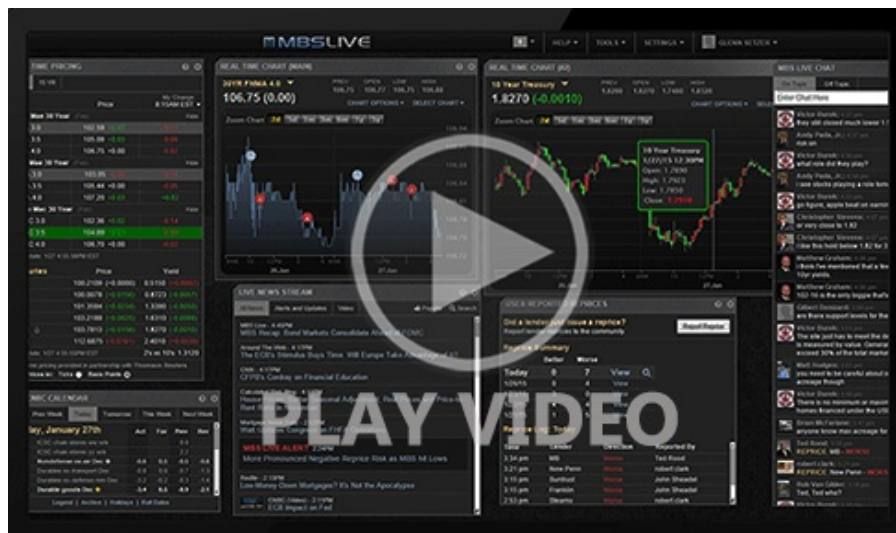
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Markets Expected More Dovishness From Powell

MBS Recap | Matthew Graham | 4:15 PM

AM data was a mixed bag that left bonds slightly weaker on the day, but not in an alarming way. GDP was mixed, coming in much stronger at the headline, but with lower domestic demand numbers. PCE prices were revised 0.2 higher for the quarter, meaning that tomorrow's monthly PCE data has a 1 in 3 chance of being the culprit (slightly raises risk of higher inflation reading). But the day's big focus was on Fed Chair Powell's press conference. The announcement itself was inconsequential. Powell had a chance to get a bit more dovish in response to recent inflation data, but instead stuck to the exact same script (hoping tariff inflation is a one-off, but wants to wait and see, and has luxury of doing so based on 4.1% unemployment). Bottom line: no bone thrown to rate cut optimists = Fed Funds Futures priced in lower odds for near-term cuts. This spilled into bonds only modestly, leaving 10yr yields in line with AM highs and leaving the broader trend as sideways as ever.



Watch the Video

- Update

8:24 AM Essentially No Reaction to Slightly Stronger ADP
- Alert

8:37 AM GDP Data Hurting a Bit
- MBS Morning

10:06 AM Deceptively Strong GDP Causing Early (Possibly Unjustified) Weakness
- Commentary

2:00 PM Here's What Changed in The New Fed Announcement

Update

2:03 PM No Major Initial Reaction to Fed Announcement

Alert

2:54 PM Bonds Losing Ground During Powell Press Conference

4:01 PM

Econ Data / Events

- ○ ADP Employment
 - 104k vs 75k f'cast, -23k prev

Market Movement Recap

- 09:29 AM A hair weaker overnight with additional selling after data. MBS down 5 ticks (.16) and 10yr up 5bps at 4.373
- 12:53 PM A bit of resilience heading into Fed announcement. MBS down 2 ticks (.06) and 10yr up 4.3bps at 4.365
- 02:08 PM very small, friendly reaction to Fed. MBS down 1 tick (.03) and 10yr up 2.6bps at 4.348
- 03:22 PM Weaker after Powell press conference. MBS down 5 ticks (.16) and 10yr up 5.3bps at 4.374

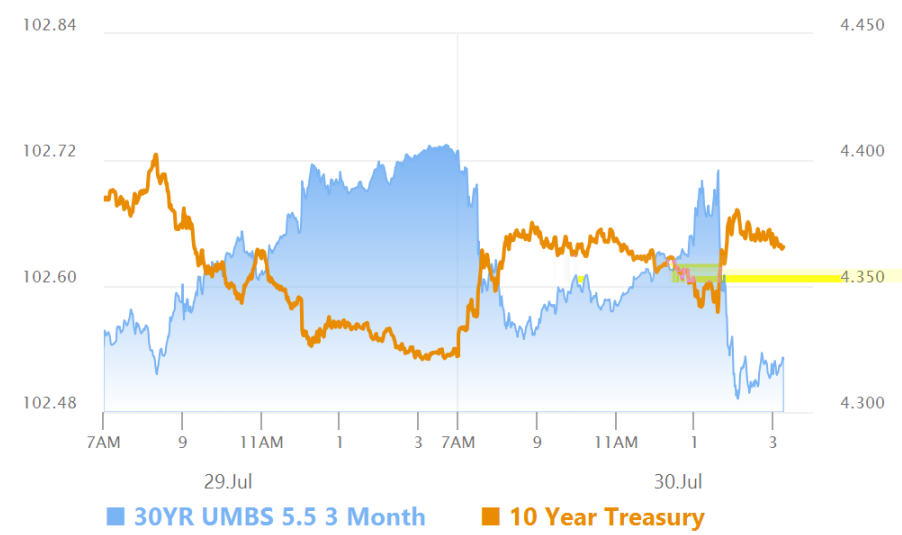
Lock / Float Considerations

- If we had a bit of friendly, asymmetric risk yesterday afternoon by virtue of MBS having improved more than the average lender rate sheet, the opposite variables are in play today. Bonds moved moderately weaker in the afternoon, but very few lenders repriced for the worse. In other words, if bonds were perfectly unchanged overnight, the implication would be for slightly higher rates. That's a lock-biased observation if you're approaching data as a true coin flip, but not lock-biased enough for the big risk-takers to be super scared. The big moves are still most likely reserved for a response to Friday's jobs report (still a coin flip, but a much bigger coin).

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	4.365%	+0.043%
2 YR	3.933%	+0.067%
30 YR	4.894%	+0.036%
5 YR	3.958%	+0.056%

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