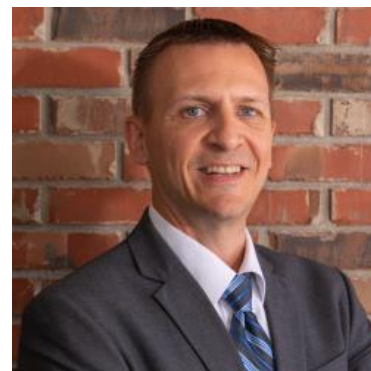


MBS & TREASURY MARKETS

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MBS Recap: Bonds Hold Steady After Modest Data-Driven Rally



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Bonds Hold Steady After Modest Data-Driven Rally

MBS Recap Matthew Graham | 4:37 PM

Today's (and to be fair, this week's) only major econ data--ISM Services--was a mixed blessing for bonds this morning. The only headwind was the uptick in the inflation component to another post-pandemic high. The tailwinds involved all other components suggesting a mild economic deceleration. Traders ultimately gave more weight to the latter. Bonds were slightly weaker before the data, but ended the day closer to unchanged levels. MBS outperformed, presumably due to Treasuries facing down another week of heavy auction supply.



Watch the Video

Update

10:04 AM Small, Friendly Bounce After ISM Data

MBS Morning

10:43 AM Mixed ISM Data Keeps Bonds In The Game

4:13 PM

Econ Data / Events

- ○ Trade Gap (Jun)
 - -60.2B vs -61.6B f'cast, prev -71.5B
- S&P Global Composite PMI (Jul)
 - 55.1 vs 54.6 f'cast, prev 52.9
- S&P Global Services PMI (Jul)
 - 55.7 vs 55.2 f'cast, prev 52.9
- ISM Biz Activity (Jul)
 - 52.6, prev 54.2
- ISM N-Mfg PMI (Jul)
 - 50.1 vs 51.5 f'cast, prev 50.8
- ISM Services Employment (Jul)
 - 46.4, prev 47.2
- ISM Services Prices (Jul)
 - 69.9, prev 67.5

Market Movement Recap

- 10:06 AM Slightly weaker overnight and little-changed after ISM. 10yr up 2.2bps at 4.215. MBS down 2 ticks (.06)
- 01:08 PM No major reaction to 3yr auction. MBS down 1 tick (.03) and 10yr up 1.1bps at 4.204
- 03:35 PM Flat in the PM hours. MBS unchanged and 10yr up 1bp at 4.202

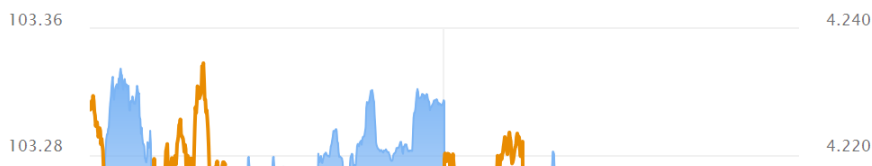
Lock / Float Considerations

- The ground-holding seen so far in the new week suggests the bond market is at least comfortable with the size of last week's NFP-driven rally. In other words, there hasn't been an attempt to bounce back to higher yields in any threatening sort of way. The only cautionary tale is the absence of follow-through. It increasingly makes 4.20% look like a resistance level. This is something we'd probably care more about if it wasn't a Treasury auction week. As it stands, bonds could simply be giving the appearance of a resistance bounce as they wait to get through auction supply. Either way, the lowest rates in 10 months will always be a compelling lock opportunity for the risk-averse crowd. Risk-tolerant floaters have many overhead lock triggers to choose from between present levels and 4.40%.

Technicals/Trends in 10yr (why 10yr)

- **Ceiling/Support** (can be used as "lock triggers")
 - o 4.64
 - o 4.48
 - o 4.40
 - o 4.34
 - o 4.28
- **Floor/Resistance**
 - o 3.99
 - o 4.05
 - o 4.12
 - o 4.19

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	4.207%	+0.013%
2 YR	3.722%	+0.045%
30 YR	4.781%	-0.013%
5 YR	3.773%	+0.033%

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