

MBS & TREASURY MARKETS

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MBS Recap: More Ground-Holding Despite Weird Intraday Spike



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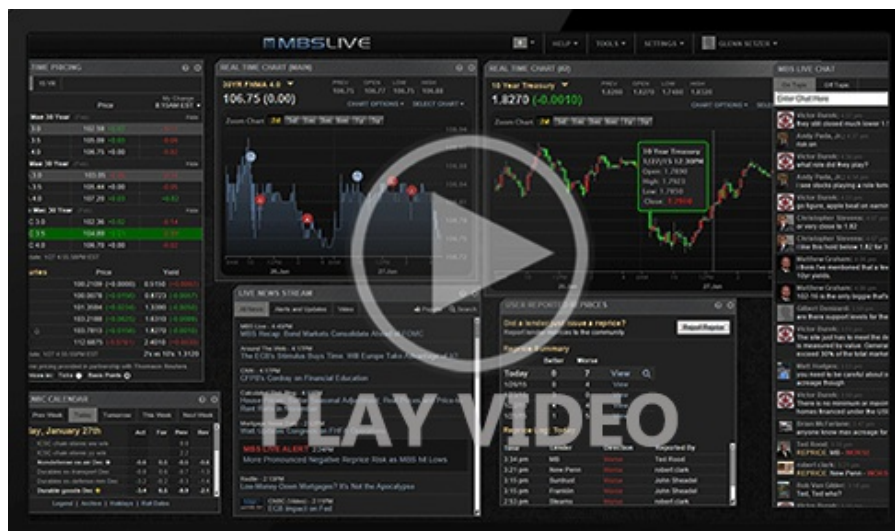
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More Ground-Holding Despite Weird Intraday Spike

MBS Recap | Matthew Graham | 4:25 PM

This morning's commentary led with our desire to avoid jinxing this week's flat, boring market movement with rates at long term lows. But for a few minutes mid-day, it looked like the jinx was real. At 11:35am, yields shot 3bps higher in a matter of minutes and in exceptionally heavy volume. Several hours later and there are still no solid explanations for the mini-drama. Thankfully, explanations are less important after Treasuries fully erased the mid-day weakness. Mystery moves like this happen. They usually offer clues by end of the trading session, but traders/analysts only tend to ravenously pursue those clues when the day-over-day movement is much larger. Since today's wasn't, this one will be forgotten and chalked up to a very small number of tight-lipped traders making very big moves that caused a mini mid-day snowball.



MBS Morning

11:26 AM Super Calm Post-NFP Week Continues

Alert

11:43 AM Bonds Selling Off Quickly

3:54 PM

Market Movement Recap

- 10:31 AM Initially weaker overnight, but rallying back since 5am. 10yr now roughly unchanged at 4.214 and MBS up 1 tick (.03).
- 12:18 PM Big selling at 11:35 and mostly stabilized now. No explanations available. 10yr was over 4.25, but now up only 1.9bps at 4.233. MBS are back to unchanged after being down an eighth of a point.
- 01:26 PM modestly weaker after 10yr Treasury auction. MBS down 1 tick (.03) and 10yr up 3bps at 4.244
- 04:11 PM Heading out with MBS up 2 ticks (.06) and 10yr up 1.2bps at 4.226

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

- 4.34
- 4.28
- Floor/Resistance
 - 3.99
 - 4.05
 - 4.12
 - 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	4.229%	+0.015%
2 YR	3.708%	-0.023%
30 YR	4.802%	+0.018%
5 YR	3.773%	-0.006%

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