

MBS & TREASURY MARKETS

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MBS Recap: Focus Shifts to Next Week's High Stakes CPI



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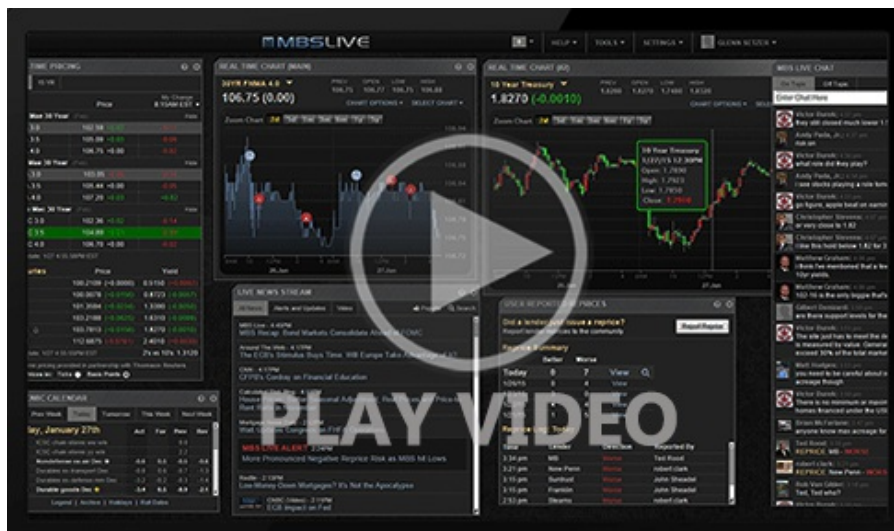
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Focus Shifts to Next Week's High Stakes CPI

MBS Recap | Matthew Graham | 3:24 PM

Bonds lost ground at the fastest pace of the week on Friday, but even that ended up being insignificant in the bigger picture. The bottom line is that this week's trading helped solidify and consolidate the gains seen after last week's jobs report. With nothing of note on tap today, focus quickly shifted to the risks/opportunities inherent in next Tuesday's CPI report--one of two key players when it comes to determining the next big move for rates (the other being the next jobs report in early September). Higher inflation would suggest bonds erase more of their post-NFP gains whereas lower inflation would argue for another challenge to the 10yr technical floor at 4.20%.



Watch the Video

MBS Morning

11:00 AM Empty Calendar and Summertime Drift

Econ Data / Events

- ○ Jobless Claims
 - 226k vs 221k f'cast, 219k prev
- Continuing Claims
 - 1974k vs 1950k f'cast, 1936k prev

Market Movement Recap

- 10:11 AM Losing ground fairly steadily this morning. MBS down an eighth and 10yr up 2bps at 4.275
- 01:01 PM Flat after initial selling. MBS down 3 ticks (.09) and 10yr up 2.9bps at 4.284
- 03:24 PM Treasuries heading out at weakest levels with 10yr up 3.1bps at 4.286. MBS still steady with a 3 tick (.09) loss

Lock / Float Considerations

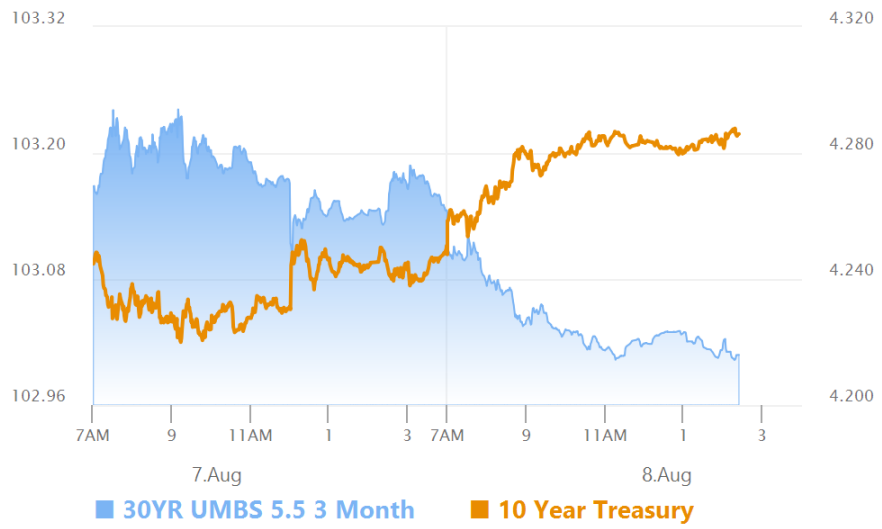
4.20% indeed proved to be a firm floor for 10yr yields this week. MBS outperformed and generally held the lowest levels since October, albeit with a microscopic bump on Friday. None of the outgoing week's movement was significant, nor can the calendar-based motivations begin to compare to next Tuesday's Consumer Price Index (CPI). If the recent jobs report made traders think rates should go quickly lower, the only singular report that could force reconsideration would be CPI.

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 | 4.286% | +0.032% |
| 2 YR | 3.761% | +0.033% |
| 30 YR | 4.855% | +0.049% |
| 5 YR | 3.833% | +0.032% |

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