

MBS & TREASURY MARKETS

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MBS Recap: Bonds Eventually Pass on Decisive Reaction to Tuesday's Data



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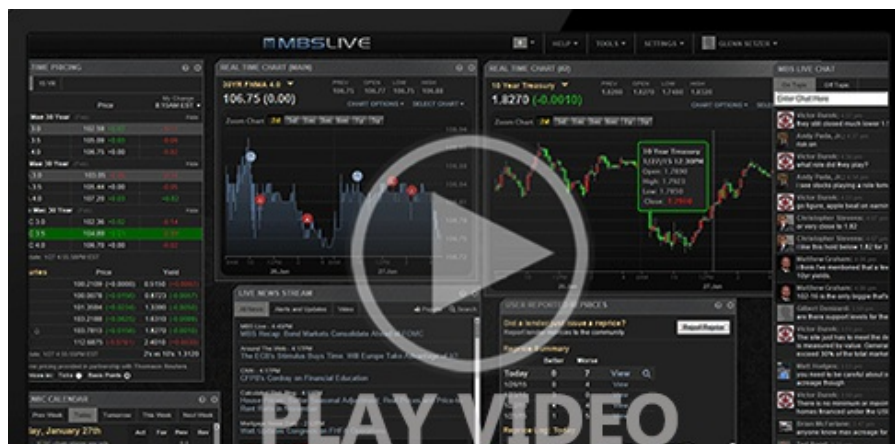
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Bonds Eventually Pass on Decisive Reaction to Tuesday's Data

MBS Recap | Matthew Graham | 4:31 PM

Right at the 8:30am release time, bonds rallied on core CPI almost perfectly hitting unrounded forecasts (.32 vs .31). Additionally, the 2.7% vs 2.8% annual headline number was another step in the right direction. As markets digested the internals, the "yeah but" trading emerged. "Yeah buts" included supercore CPI (core services excluding housing) rising to 0.481 vs 0.212 month-over-month and evidence of the tariff impact via the highest annual core goods inflation since June 2023. So on one hand, declines in housing related inflation are finally helping keep the number down while other categories are pushing back in the other direction, keeping the broader numbers a bit stubborn. The mixed data and mixed market reaction place even more emphasis on the next jobs report when it comes to informing the next big move for rates.





8:32 AM Mixed CPI, Bonds Rallying

9:20 AM Mixed Reaction Thanks to Messy Internal CPI Components

9:29 AM Gains Erased in 10yr; MBS Down an Eighth From Highs

4:18 PM

- - m/m CORE CPI (Jul)
 - 0.3% vs 0.3% f'cast, prev 0.2%
 - m/m Headline CPI (Jul)
 - 0.2% vs 0.2% f'cast, prev 0.3%
 - y/y CORE CPI (Jul)
 - 3.1% vs 3% f'cast, prev 2.9%
 - y/y Headline CPI (Jul)
 - 2.7% vs 2.8% f'cast, prev 2.7%

09:30 AM	Initial rally followed by a sell-off after CPI. 10yr up 1.7bps at 4.302. MBS still 3 ticks (.09) higher on the day, but post-CPI gains are erased.
10:50 AM	Off the weakest levels. 10yr up 1.3bps at 4.296 and MBS up an eighth of a point.
01:49 PM	Turning out to be fairly uneventful. MBS up 5 ticks (.16) and 10yr up 0.7bps at 4.292
04:30 PM	Strongest levels since the post-CPI selling. MBS up 6 ticks (.19) and 10yr nearly unchanged at 4.287

Lock / Float Considerations

- After the CPI reaction proved to be a dud in terms of volatility, risk/reward are back at typically lower levels. Wednesday is lacking in terms of calendar events and bonds are well within the post-NFP range. Risk-tolerant clients still have some room to use 4.32/4.34% as an overhead lock trigger. And risk-averse clients still have the lowest rates in 10 months. No wrong answers at the moment--just personal preference.

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	+

US Treasuries

10 YR	4.287%	+0.002%
2 YR	3.730%	-0.060%
30 YR	4.876%	+0.024%
5 YR	3.818%	-0.018%

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