

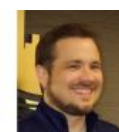
MBS & TREASURY MARKETS

Daily Coverage. Industry Leading Perspective.

MBS Recap: Weaker Conclusion But No Major Big Picture Implications



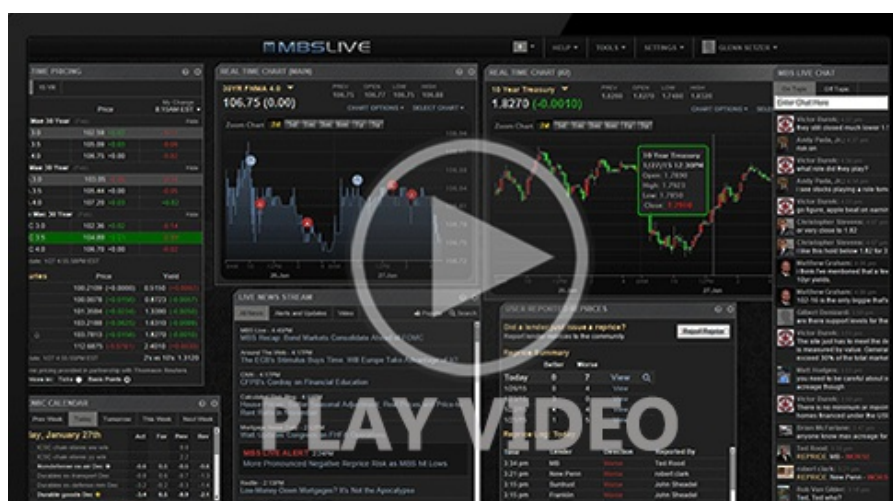
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Weaker Conclusion But No Major Big Picture Implications

MBS Recap | Matthew Graham | 3:30 PM

Despite much stronger revisions and a modestly stronger core retail sales number this morning, bonds managed to hold mostly sideways until the afternoon hours. At that point, lighter summertime Friday afternoon trading gave way to a mini snowball that took yields to their highest levels of the week. Fed Funds futures suggested some thought behind the selling with the highest implied September rate since just before Tuesday's CPI. All that having been said, bonds could simply be hedging their optimism ahead of next week's Jackson Hole speech from Fed Chair Powell. In the bigger picture, little has changed since last Friday's jobs report.



Update

8:34 AM Slightly Weaker After Retail Sales Data

MBS Morning

10:03 AM Minimal Reaction to Decent Retail Sales Data

Alert

12:22 PM MBS Down an Eighth From AM Highs

2:25 PM

Econ Data / Events

- ○ Export prices mm (Jul)
 - 0.1% vs 0.1% f'cast, prev 0.5%
- Import prices mm (Jul)
 - 0.4% vs 0.0% f'cast, prev -0.1%
- NY Fed Manufacturing (Aug)
 - 11.90 vs 0.0 f'cast, prev 5.50
- Retail Sales (Jul)
 - 0.5% vs 0.5% f'cast, prev 0.6%
- Retail Sales (ex-autos) (Jul)
 - 0.3% vs 0.3% f'cast, prev 0.8%
- Retail Sales Control Group MoM (Jul)
 - 0.5% vs 0.4% f'cast, prev 0.8%

Market Movement Recap

- 09:03 AM Mixed reaction to econ data, but broadly sideways. 10yr down 0.2bps at 4.284 and MBS up 1 tick (.03).
- 12:22 PM 10yr yields are now up 3.5bps on the day at 4.321. MBS are down 3 ticks (.09) on the day and just over an eighth from highs
- 12:51 PM just a bit weaker now. MBS down almost an eighth on the day and more than an eighth from early rate sheets. 10yr up 4.1bps at 4.327

03:25 PM

early rate sheets. 10yr up 4.1bps at 4.327

Off the very weakest levels heading into the close with MBS down an eighth and 10yr yields up 3.9bps at 4.325

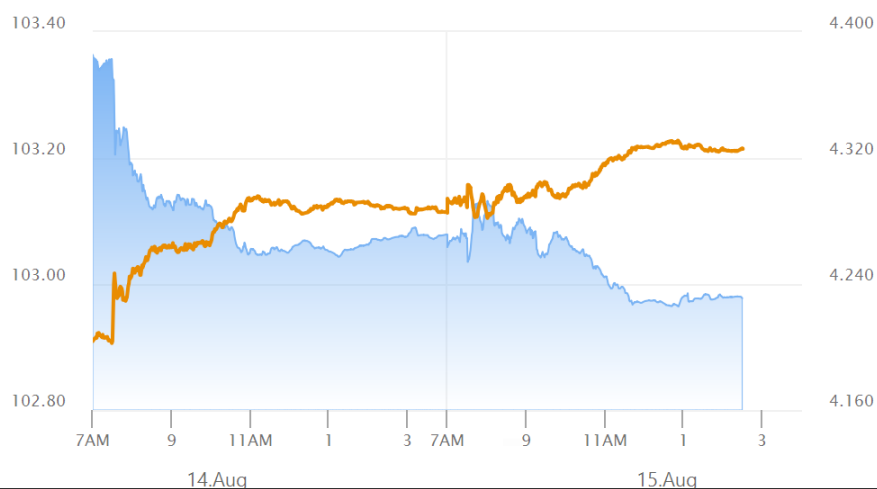
Lock / Float Considerations

- Traders are hedging their optimism heading into next week's Jackson Hole speeches. The late-week weakness helps balance the risk/reward outlook after being slightly lock-biased earlier in the week with rates more firmly at 10 month lows. Risk averse clients remain in lock mode as long as bonds remain unable to re-test the post-NFP low yields. Risk tolerant clients are mixed in their approach, with some seeing just enough weakness to pull the trigger based on Friday's sell-off. Other, more aggressive floaters will set their stop loss levels at weaker levels that correspond with the NFP rally from 8/1.

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	4.326%	+0.040%
2 YR	3.757%	+0.025%
30 YR	4.924%	+0.054%
5 YR	3.844%	+0.029%

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