

MBS & TREASURY MARKETS

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MBS Recap: Some Headwinds Ahead of Powell's Jackson Hole Speech



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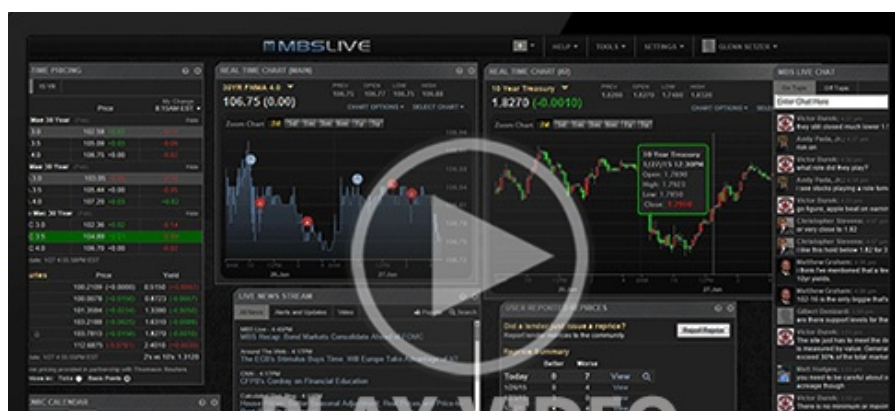
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Some Headwinds Ahead of Powell's Jackson Hole Speech

MBS Recap | Matthew Graham | 1:25 PM

Thursday brought the week's only relevant econ data with 3 occasional market movers on tap. Their results were mixed, but the important development was that the inflation components of the Philly Fed and S&P PMI data agreed that price pressures are alive and well. This made for a weaker start during the AM hours and that weakness was exacerbated by comments from Fed's Hammack (who said current data doesn't justify a September rate cut). A super strong 30yr TIPS auction at 1pm helped push back just a bit (which is quite remarkable as this essentially never has an impact). In the bigger picture, bonds could still be classified as drifting sideways to slightly weaker in a narrow range. Friday morning's speech from Fed Chair Powell isn't guaranteed to cause volatility, but it's the week's only true top-tier event in terms of volatility potential.





8:37 AM Erasing Some Overnight Losses After Data

9:02 AM And.... It's Gone (Post Data Rally Erased)

10:24 AM Mixed Data Making For Weaker Start

11:21 AM Losing More Ground After Fed's Hammack Comments

1:13 PM

- ○ Continued Claims (Aug)/09
 - 1,972K vs 1960K f'cast, 1953K prev
- Jobless Claims (Aug)/16
 - 235K vs 225K f'cast, 224K prev
- Philly Fed Business Index (Aug)
 - -0.3 vs 7 f'cast, 15.9 prev
- Philly Fed Prices Paid (Aug)
 - 66.80 vs -- f'cast, 58.80 prev
- S&P Manufacturing PMI
 - 53.3 vs 49.5 f'cast, 49.8 prev
- S&P Services PMI
 - 55.4 vs 54.2 f'cast, 55.7 prev

08:37 AM MBS are now down only 1 tick (.03) and 10yr yields are close to unchanged at 4.296 after being over 4.315 just before the data.

- 09:03 AM 10yr yields are back up to 4.312 (up 1.8bps on the day) and MBS are down 3 ticks (.09) on the day.
- 09:52 AM Weakest levels after PMI data. MBS down an eighth and 10yr up 3.3bps at 4.328
- 11:22 AM MBS down 5 ticks (.16) on the day 10yr yields up 4.5bps on the day at 4.35. Fed's Hammack comments are the driver of the most recent weakness
- 01:11 PM Some resilience after strong 30yr TIPS auction (never have we ever seen a 30yr TIPS auction move the market). 10yr up 3.4bps at 4.329 and MBS down 3 ticks (.09).

Lock / Float Considerations

- Modest, incidental, summertime drift in bonds without much on the calendar to cause volatility concerns apart from Friday's Powell appearance at Jackson Hole. There's little to be done with respect to lock/float decisions at times like this. Risk tolerant clients will wait for a bigger move to inform their decisions. Risk averse clients are happy to lock with rates still near long-term lows. And those in between are well served by flipping coins.

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	4.329%	+0.034%
2 YR	3.793%	+0.045%
30 YR	4.921%	+0.025%
5 YR	3.856%	+0.042%

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