MBS Recap: Textbook Reaction With Minimal Volatility

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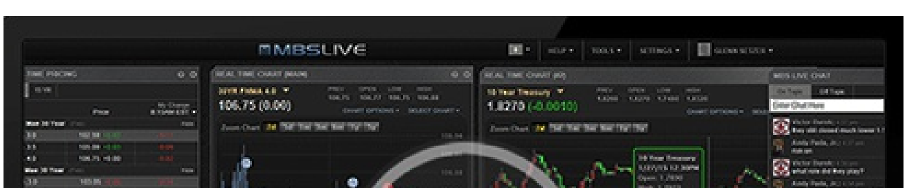
Textbook Reaction With Minimal Volatility

MBS Recap Matthew Graham | 4:44 PM

The bond market's reaction to today's jobs report was a textbook example. The job count was much weaker than expected, though not extreme, and revisions cast further shade on the recent employment trends. Bonds responded with a rally that was equally brisk and at no more risk of being labeled "extreme." Case in point, MBS were only up .375-ish at today's highs compared to the full point of improvement seen after the last jobs report. The absence of volatility after the initial move was nothing short of refreshing. Rare is the NFP day without any major lead changes or reprices.



Watch the Video

Update

8:32 AM First Move After NFP is Stronger

MBS Morning

9:07 AM Another Weak Jobs Report. Another Bond Rally

12:16 PM

Commentary

12:32 PM A Quick Note on Why Rates Seem to Drop More Quickly as They Approach Certain Thresholds

Alert

2:48 PM Heads-Up: MBS Down an Eighth From Mid-Day Highs

Econ Data / Events

- Nonfarm Payrolls
  - 22k vs 75k f'cast, 79k prev
- Unemployment Rate
  - 4.3 vs 4.3 f'cast, 4.2 prev

Market Movement Recap

08:41 AM Stronger after NFP. MBS up a quarter point and 10yr down 6.1bps at 4.097

09:15 AM Rally continues. MBS up 3/8ths and 10yr down 9bps at 4.069

12:53 PM Calmly holding strongest levels. MBS up 11 ticks (.34) and 10yr down 8.6bps at 4.071

02:48 PM Off the best levels by about an eighth with MBS up a quarter point and 10yr yields down 7.2bps at 4.086

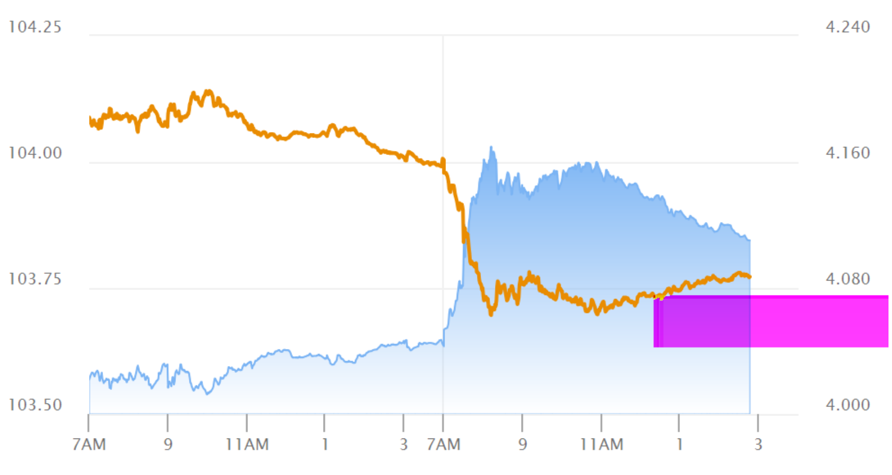
Lock / Float Considerations

- Risk takers who floated into the jobs report were clearly rewarded. They have little incentive to change strategy until the market shows a willingness to push rates back up in a remotely threatening way. From a strictly tactical, short-term point of view, when bonds string together a series of rally days as they have in the past 2 weeks, a corrective bounce becomes more and more of a risk. Next week's inflation data is the next relevant volatility although it would have to be significantly higher than expected to cause a re-think of Friday's rally. If, on the other hand, it's lower than expected, things could get a little sporty for the broader rate rally as traders rush to price in a 50bp Fed rate cut in September.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
  - 4.64
  - 4.48
  - 4.40
  - 4.34
  - 4.28
- Floor/Resistance
  - 3.99
  - 4.05
  - 4.12
  - 4.19

MBS & Treasury Markets



4.Sep 5.Sep

30YR UMBS 5.5 3 Month   10 Year Treasury

MBS	
30YR UMBS 5.5	+
30YR UMBS 6.0	+
30YR GNMA 5.5	+
15YR UMBS-15 5.0	+

US Treasuries		
10 YR	4.087%	-0.071%
2 YR	3.517%	-0.072%
30 YR	4.770%	-0.090%
5 YR	3.589%	-0.055%

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