

MBS & TREASURY MARKETS

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MBS Recap: More Gains Despite Absence of New Motivation



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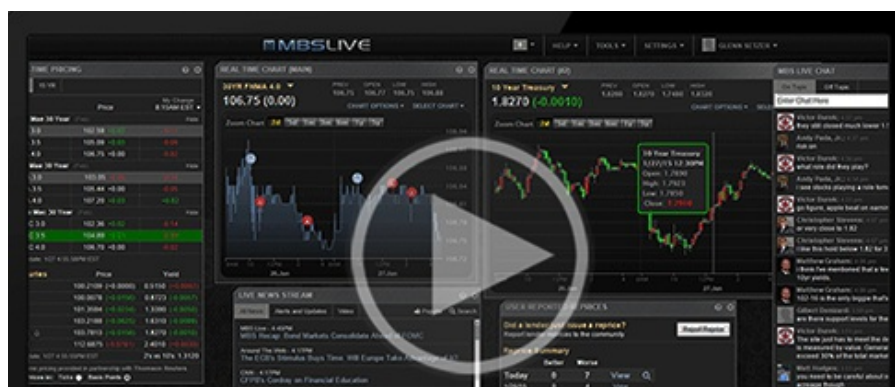
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More Gains Despite Absence of New Motivation

MBS Recap | Matthew Graham | 3:32 PM

There's not much to say about Monday other than "we'll take it!" Despite an absence of new motivations (today's data wasn't in the "market mover" category), bonds added to last week's already brisk rally. Longer-term yields outperformed as the yield curve continued a correction from the longer-term highs/wides hit last Tue/Wed. In other words, some of the motivation could be coming from curve traders who are more concerned with how bonds perform against one another than with simple gains/losses.





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Market Movement Recap

- 09:29 AM Fairly flat overnight, but rallying now. MBS up an eighth in 5.5 coupon and almost a quarter in 5.0 coupon. 10yr down 3.1bps at 4.056
- 11:31 AM Holding near strongest levels after mini bounce at 10:50am. 5.0 MBS up a quarter point and 10yr down just under 4bps at 4.05
- 02:04 PM Some weakness heading into OM hours, but holding the stronger range for now. 5.0 MBS up 6 ticks (.19) and 10yr down 3.2bps at 4.055

Lock / Float Considerations

- From a strictly tactical, short-term point of view, when bonds string together a series of rally days as they have in the past 3 weeks, a corrective bounce becomes more and more of a risk. This week's inflation data is the next relevant source of potential 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, inflation is 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")
 - 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

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

US Treasuries

10 YR	4.043%	-0.044%
2 YR	3.496%	-0.022%
30 YR	4.688%	-0.082%
5 YR	3.568%	-0.021%

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