

MBS & TREASURY MARKETS

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MBS Recap: Helpful Data and Treasury Auction Set High Bar For CPI

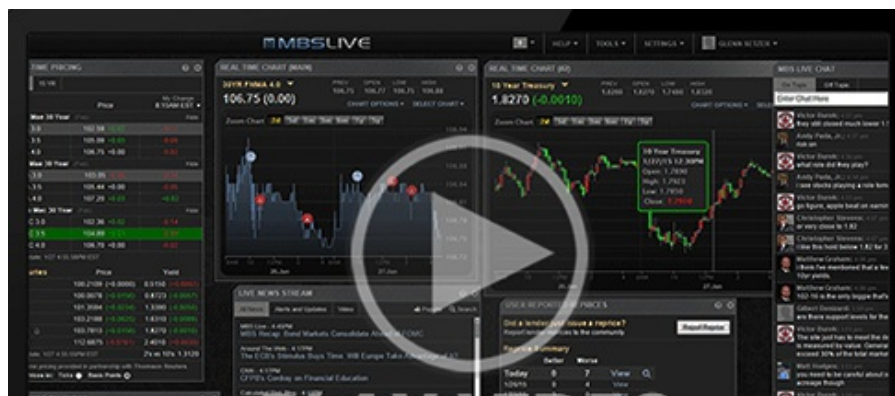


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Helpful Data and Treasury Auction Set High Bar For CPI

MBS Recap | Matthew Graham | 4:27 PM

Another fairly straightforward day for the bond market with friendly econ data and a strong 10yr Treasury auction both helping push yields lower. If it seems like the size of the miss in the PPI data justified a bigger move, consider the fact that it's an incredibly volatile data series. Additionally, last month's PPI created "base effect" issues (i.e. it was so high that today's -0.1% reading leaves the 2 month annualized level at 3.6%--still too high. Nonetheless, it was good enough news for bonds to push back against overnight weakness. The afternoon's 10yr auction helped bring yields to new lows for the day before ebbing slightly higher in the afternoon. Thursday AM's CPI release is this week's big to-do from a potential volatility standpoint.





[Watch the Video](#)

Update

8:36 AM Bonds Rallying After Weaker PPI

MBS Morning

11:27 AM Super Cool PPI Makes For a Stronger Start

4:11 PM

Alert

4:13 PM Heads-Up: MBS Down an Eighth From Highs

Econ Data / Events

- - Core Producer Prices MM (Aug)
 - -0.1% vs 0.3% f'cast, 0.9% prev
 - Core Producer Prices YY (Aug)
 - 2.8% vs 3.5% f'cast, 3.7% prev
 - Producer Prices (Aug)
 - -0.1% vs 0.3% f'cast, 0.9% prev

Market Movement Recap

- 09:24 AM Stronger after PPI data. MBS up roughly 1/8th and 10yr down 2.8bps at 4.055
- 11:59 AM Best levels. MBS up 5 ticks (.16) and 10yr down 3.7bps at 4.046
- 01:05 PM Strong 10yr auction prompts just a bit more buying in TSYs. 10yr now down 5.7bps at 4.026. MBS still up 5 ticks in 5.5 coupons, but almost 3/8ths in 5.0 coupons.
- 04:13 PM MBS now up 3 ticks (.09) in 5.5 coupons and 6 ticks (.19) in 5.0 coupons. Both are down about an eighth from highs. 10yr down 3.8bps at 4.046

Lock / Float Considerations

- Thursday morning's CPI data represents this week biggest risk in terms of potential rate volatility. If inflation falls short of forecasts by more than an incidental amount, it could easily facilitate more long-term lows for rates. Conversely, higher inflation would likely add to Tuesday's corrective impulse, but it would have to be MUCH higher to unwind more than a modest amount of the post-NFP gains.

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

30 Measures

10 YR	4.044%	-0.040%
2 YR	3.543%	-0.025%
30 YR	4.692%	-0.043%
5 YR	3.592%	-0.035%

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