

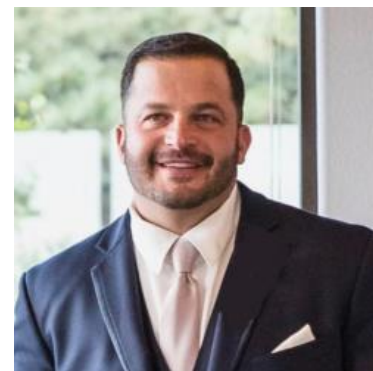
MBS & TREASURY MARKETS

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The Day Ahead: Bonds Easily Clearing Last Pre-Fed Hurdle

After last week's CPI data was taken mostly in stride, the only other potential economic data hurdle was this morning's Retail Sales report. Whereas CPI was merely on the hotter side of the consensus, Retail Sales came out unequivocally stronger, with the control group hitting the 6.0% mark in year-over-year terms. Even after subtracting 3% annual inflation, this is a strong economic signal and it was no surprise to see bonds lose ground immediately following the release. It's been more of a surprise to see a reversal of those losses and a return to modestly positive territory less than an hour after the data. There's actually no obvious reason for it without relying on conjecture.

What we **can** see is that the Treasury recovery picked up steam at the 9:30am NYSE open as yields fell in concert with stock prices. Could be as simple as some profit taking and asset allocation trading.



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