

MBS & TREASURY MARKETS

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MBS Recap: Bonds Improve After Treasury Auctions



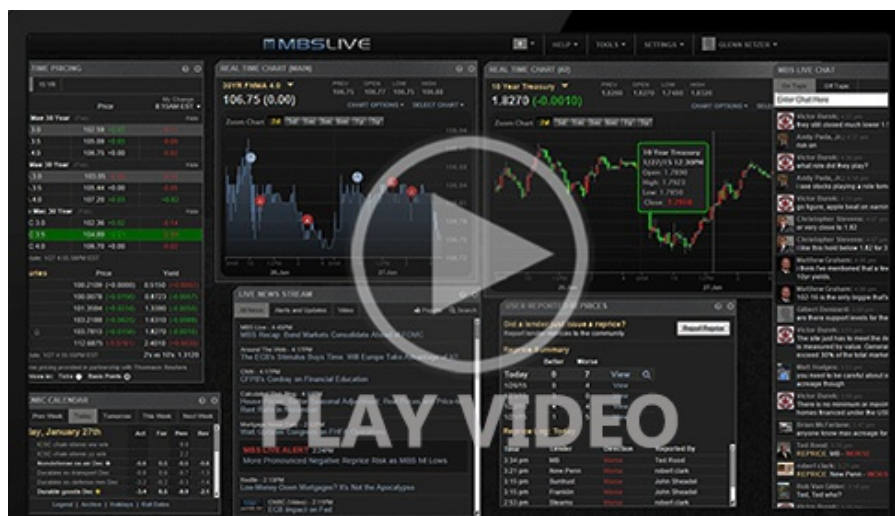
KV Mortgage



Bonds Improve After Treasury Auctions

MBS Recap | Matthew Graham | 3:40 PM

Treasury auctions don't always cause a reaction in bonds, but they did today. This has less to do with the results being remarkable and more to do with the fact that there were two big auctions on a Monday (as opposed to the typical auction schedule that plays out Tue-Thu) as well as the fact that there's not much else going on in terms of data due to the shutdown. In hindsight, we can see the market likely built in a small concession ahead of these auctions, and the concession was traded back out after the auction results printed. One final way we know the auctions are having an impact is via the outperformance of MBS. Since MBS aren't weighed down by a big glut of new supply, they were free to outperform both 10 and 5yr Treasuries--something like probably would not have happened so decisively in the absence of the auction cycle.



MBS Morning

10:34 AM Pre-Fed Consolidation, Pre-Auction Concession

3:32 PM

Econ Data / Events

- ○ m/m CORE CPI (Sep)
 - 0.227% vs 0.3% f'cast, 0.3% prev
- m/m Headline CPI (Sep)
 - 0.3% vs 0.4% f'cast, 0.4% prev
- y/y CORE CPI (Sep)
 - 3.0% vs 3.1% f'cast, 3.1% prev
- y/y Headline CPI (Sep)
 - 3.0% vs 3.1% f'cast, 2.9% prev
- m/m SUPERCORE
 - .351 vs .330 prev

Market Movement Recap

- 10:01 AM Modestly weaker overnight with some additional selling after 9:30am NYSE open. MBS down 2 ticks (.06) and 10yr up 1bp at 4.029
- 01:19 PM Stronger both before and after 5yr Treasury auction. MBS up 1 tick (.03) and 10yr down 2bps at 3.999

Lock / Float Considerations

- Rates are flat to start the new week and have digested the first two Treasury auctions quite well. While this doesn't do anything to argue against the potential floor in the current rate range, it at least suggests lower urgency in bracing for a potential correction. This week's Wed afternoon Fed announcement remains the biggest volatility risk on the near-term horizon.

Technical/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")

- 4.48
- 4.40
- 4.34
- 4.28
- 4.19
- 4.12
- 4.05

- Floor/Resistance

- 3.89
- 3.97

MBS & Treasury Markets



MBS

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

US Treasuries

10 YR	3.993%	-0.026%
2 YR	3.502%	+0.010%
30 YR	4.566%	-0.036%
5 YR	3.615%	-0.003%

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