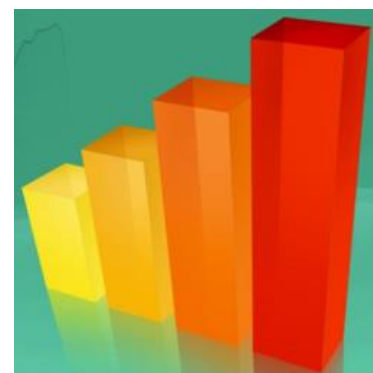


MBS & TREASURY MARKETS

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MBS Recap: Best Closing Levels in Nearly a Month



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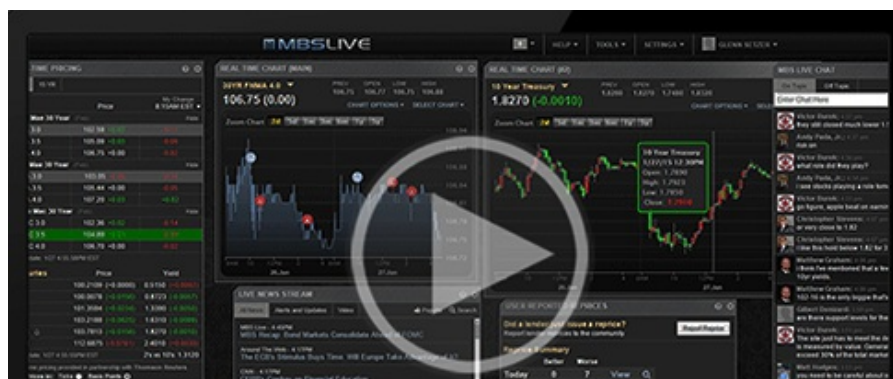
San Francisco CA 94123



Best Closing Levels in Nearly a Month

MBS Recap | Matthew Graham | 5:07 PM

Bonds improved only moderately on Tuesday in a move that's just as easily chalked up to random holiday-week volatility as any of the day's data/events. If we're determined to give credit to particulars, we can cite things like the 13.5k decline in weekly ADP payrolls, or the market's favorable reaction to rumors that Kevin Hassett is the front-runner to be the next Fed Chair (Hassett is assumed to be extremely dovish). Most notably, bonds took no damage from another day of upward momentum in stock prices. Yields closed out with 10s right at 4.0%--the best end of day marks since the day before the October 29th Fed announcement (6th lowest close in more than a year).





Watch the Video

MBS Morning

8:53 AM 10yr Flirting With 4.0%, But Not Because of Data

4:25 PM

Econ Data / Events

- ○ ADP Employment Change Weekly
 - -13.5K vs -- f'cast, -2.5K prev
- Core Producer Prices MM (Sep)
 - 0.1% vs 0.2% f'cast, -0.1% prev
- PPI YoY (Sep)
 - 2.7% vs 2.7% f'cast, 2.6% prev
- Producer Prices (Sep)
 - 0.3% vs 0.3% f'cast, -0.1% prev
- Retail Sales (Sep)
 - 0.2% vs 0.4% f'cast, 0.6% prev
- Retail Sales Control Group MoM (Sep)
 - -0.1% vs 0.3% f'cast, 0.7% prev
- FHFA m/m home price change
 - 0.0
- Consumer Confidence
 - 88.7 vs 93.4 f'cast, 94.6 prev
- Pending Home Sales
 - 76.3 vs 74.8 prev

Market Movement Recap

08:35 AM Lots of data but no reaction. MBS up 2 ticks (.06) and 10yr down 0.7bps at 4.02

10:04 AM holding best levels after more data. MBS up 3 ticks (.09) and 10yr down 2.3bps at 4.005

12:22 PM Rates rallying on Hasset Fed Chair rumors. MBS up 6 ticks (.19) and 10yr down 3.5bps at 3.993

04:24 PM Heading out with MBS still up 6 ticks (.19) and 10yr down 2.6bps at 4.001

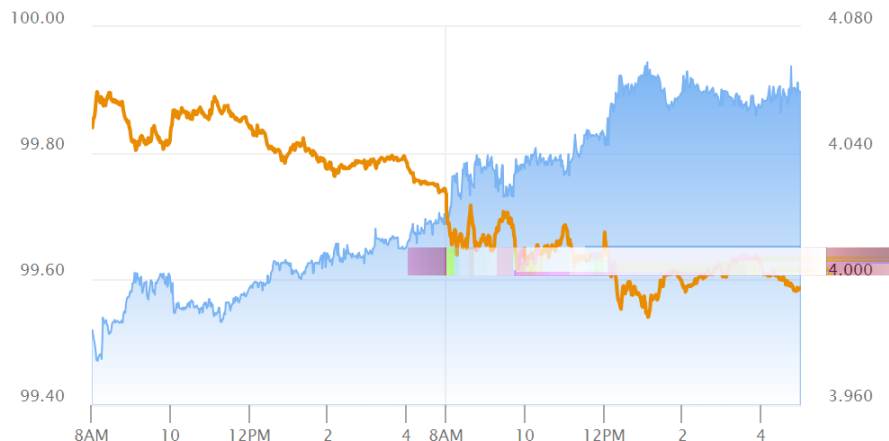
Lock / Float Considerations

- Thanksgiving week volatility has arrived and, fortunately, it is playing out in favor of lower rates. Tuesday's drop was especially large due to the structure of the underlying MBS market which causes average rates to fall faster as they approach coupon cut-offs (6.125% 30yr fixed rates in the current case). The same volatility caveats remain, however, and Tuesday's improvement is no guarantee of a repeat performance on Wednesday. If anything, the proximity to long-term lows means that another meaningful drop will be less and less likely until newer econ data justifies it.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.48
 - o 4.40
 - o 4.34
 - o 4.28
 - o 4.19
 - o 4.12
 - o 4.05
- Floor/Resistance
 - o 3.89
 - o 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	3.998%	-0.030%
2 YR	3.461%	-0.033%
30 YR	4.651%	-0.013%
5 YR	3.570%	-0.025%

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