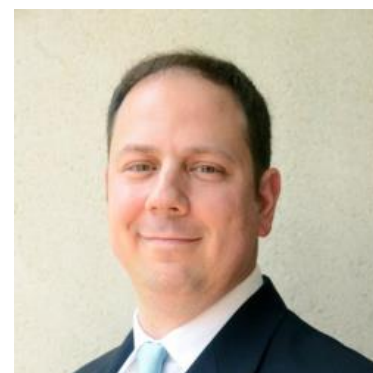


MBS & TREASURY MARKETS

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MBS Recap: CPI Helped Bonds Avoid Losing Ground



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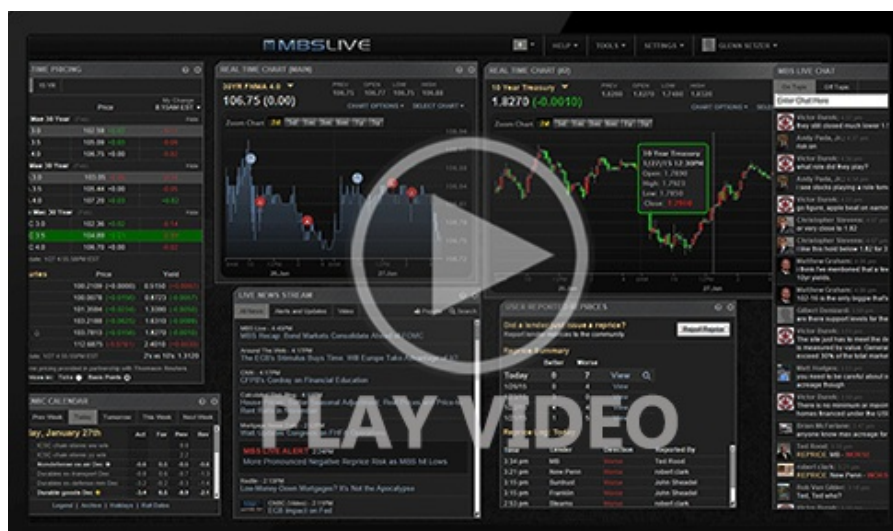
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CPI Helped Bonds Avoid Losing Ground

MBS Recap | Matthew Graham | 4:46 PM

Bonds began the day in slightly weaker territory and managed to flip into slightly stronger territory after the CPI data. Core monthly CPI printed at 0.2, but was rounded down from 0.24. In other words, it wasn't as big of a beat as the "0.2 vs 0.3" result suggested. The notion of inflation being "lower but still elevated" contributed to the tepid response. As for MBS, they were in positive territory all day even though charts made them look weaker due to monthly settlement. Wednesday morning brings November's retail sales data and Producer Price Index (PPI). Neither are as heavy hitting as CPI, but they could move the needle if they fall far from forecast.



Update

8:32 AM First Move is Stronger After CPI

MBS Morning

10:00 AM Mixed, But Modestly Stronger Reaction to CPI

Alert

11:37 AM MBS at Weakest Levels; Reprice Risk Varies

3:53 PM

Econ Data / Events

- ○ m/m CORE CPI (Dec)
 - 0.2% vs 0.3% f'cast, -- prev
- m/m Headline CPI (Dec)
 - 0.3% vs 0.3% f'cast, -- prev
- y/y CORE CPI (Dec)
 - 2.6% vs 2.7% f'cast, 2.6% prev
- y/y Headline CPI (Dec)
 - 2.7% vs 2.7% f'cast, 2.7% prev

Market Movement Recap

- 08:32 AM Stronger after CPI data. MBS up just over a quarter point and 10yr down 1.6bps at 4.16
- 10:50 AM Choppy after initial rally but still slightly stronger. MBS up 5 ticks (.16) and 10yr down half a bp at 4.173
- 01:15 PM 30yr auction 4.825 vs 4.833 f'cast. Bid to cover 2.42 vs 2.38 avg. No major reaction. 10yr down 1.1bps at 4.167 and MBS off weakest levels, up 5 ticks (.16) on the day.
- 04:37 PM 10yr yields down 0.3bps at 4.175 and MBS up 5 ticks (.16).

Lock / Float Considerations

- Bonds weren't too keen on a big reaction to CPI data, but that shouldn't stand as evidence that data will continue to be ignored. Wednesday's offerings aren't on CPI's level, but there's still room for volatility if they fall far from forecasts. Moreover, Treasuries seem like they're just waiting for an excuse to test a bearish breakout.

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	4.175%	0.003%
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10 YR	4.175%	-0.003%
2 YR	3.528%	-0.004%
30 YR	4.833%	+0.005%
5 YR	3.747%	-0.007%

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