

MBS & TREASURY MARKETS

Daily Coverage. Industry Leading Perspective.

MBS Recap: CPI Helped Bonds Avoid Losing Ground



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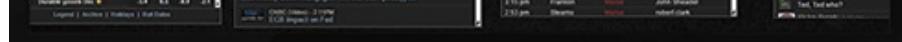
CPI Helped Bonds Avoid Losing Ground

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.

The screenshot displays the MBS LIVE interface with several windows open:

- TIME PAGING:** Shows bond prices and yields for various maturities, including 30 Year, 20 Year, 15 Year, 10 Year, 5 Year, and 3 Year.
- REAL TIME CHART (MAIN):** A line chart for the 30 Year Bond, showing price and yield over time. A green box highlights the price action.
- REAL TIME CHART (30Y):** A line chart for the 30 Year Treasury, showing price and yield over time. A green box highlights the price action.
- MBS LIVE CHART:** A line chart for the 30 Year Treasury, showing price and yield over time. A green box highlights the price action.
- NEWS STREAM:** A news feed with various articles, including one about the CPI and another about the Fed's stimulus.
- PLAY VIDEO:** A large video player overlay with the text "PLAY VIDEO" and a play button.
- CHAT:** A sidebar with a list of messages from users, including a message from "Andy Pfeifer, Jr." and a message from "Matthew Grahame".



[Watch the Video](#)

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

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