

MBS Recap: Some Asymmetric Risk When it Comes to Locking vs Floating

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Some Asymmetric Risk When it Comes to Locking vs Floating

MBS Recap | Matthew Graham | 3:57 PM

Bonds improved today mostly in response to heavy stock losses creating some safe haven buying demand. Data wasn't heavily traded, but it didn't do any harm. Producer Prices were mixed, with an upward revision in September being offset by lower-than-expected inflation in November. Retail Sales (also November data) beat at the headline, but the control group (excludes autos/gas/building materials) was in line with estimates and October's number was revised lower. Despite the bond gains, mortgage rates were unchanged. This offers a potential clue about lenders being resistant to the notion of offering meaningful improvements from current levels in the short term.

A screenshot of the MBS LIVE software interface. The top navigation bar includes 'HOME', 'ABOUT', 'LOG IN', 'LOG OUT', 'HELP', 'TOOLS', 'SETTINGS', and 'GIVEN SECTOR'. The main area is divided into several panes: 'REAL TIME Pricing' on the left showing a table of bond yields for various maturities; 'REAL TIME CHART (Bonds)' in the center showing a line chart of bond yields over time with a play button overlay; 'REAL TIME CHART (Treasury)' to the right showing a line chart of treasury yields; 'MBS LIVE CHAT' on the far right showing a list of users and their messages; and 'LIVE NEWS STREAM' at the bottom left. A large 'PLAY VIDEO' button is overlaid in the center of the chart area. The bottom of the screen shows a news feed with various headlines and a search bar.

Watch the Video

8:58 AM Today's Data is Proving Less Tradeable, But Doing No Harm

3:45 PM

Econ Data / Events

- - o Core Producer Prices MM (Nov)
 - 0.0% vs 0.2% f'cast
 - o Core Producer Prices MM (Oct)
 - 0.3% vs 0.1% prev
 - o PPI YoY (Nov)
 - 3% vs 2.7% f'cast
 - o PPI YoY (Oct)
 - 2.8% vs 2.7% prev
 - o Producer Prices (Nov)
 - 0.2% vs 0.2% f'cast, 0.1% prev
 - o Producer Prices (Oct)
 - 0.1% vs 0.3% prev
 - o Retail Sales (Nov)
 - 0.6% vs 0.4% f'cast, 0% prev
 - o Retail Sales Control Group MoM (Nov)
 - 0.4% vs 0.4% f'cast, 0.8% prev

Market Movement Recap

- 09:11 AM No major reaction to AM econ data. MBS up 1 tick (.03) and 10yr down 1.6bps at 4.165
- 11:23 AM Best levels of the day with MBS up 5 ticks (.16) and 10yr down 4.2bps at 4.138
- 01:58 PM Little changed from last update. MBS up 5 ticks (.16) and 10yr down 4.7bps at 4.133

Lock / Float Considerations

- The absence of rate improvement despite bond market gains suggests some asymmetric risk for the

lock/float outlook. On one hand, it could be viewed as lenders having a cushion to absorb any incidental weakness in the coming days. On the other hand, it also suggests lenders aren't keen to drop rates below current levels for a few days or without a more significant rally in bonds.

Technicals/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	4.145%	-0.035%
2 YR	3.520%	-0.016%
30 YR	4.795%	-0.046%

30 YR

4.755%

-0.040%

5 YR

3.724%

-0.027%

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