

MBS & TREASURY MARKETS

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MBS Recap: Data-Driven Weakness



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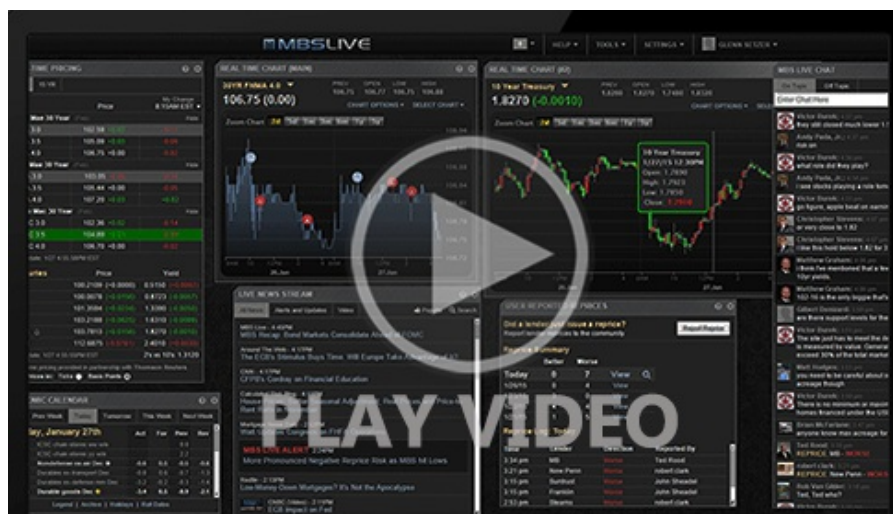
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Data-Driven Weakness

MBS Recap | Matthew Graham | 4:32 PM

It was a reasonably straightforward day for the bond market. Trading was flat overnight, then weaker after the 8:30am Jobless Claims data. That report is hit and miss as a market mover, but a sub-200k print without any recent seasonal spike is certainly worth a few bps of weakness. Impacts were most notable in Fed Funds Rate expectations, which have now fully eliminated any possibility for a January cut and lowered the probability of a March cut from over 40% last week to under 20% today. In the bigger picture, longer-term rates remain squarely range-bound and MBS remain broken out the top of their comparable range thanks to GSE purchases.



MBS Morning

8:40 AM Stronger Jobless Claims Leads to Early Selling

Alert

10:50 AM MBS Down an Eighth Since 9:30am ET

3:47 PM

Econ Data / Events

- - o Continued Claims (Jan)/03
 - 1,884K vs 1890K f'cast, 1914K prev
 - o Jobless Claims (Jan)/10
 - 198K vs 215K f'cast, 208K prev
 - o NY Fed Manufacturing (Jan)
 - 7.70 vs 1 f'cast, -3.90 prev
 - o Philly Fed Business Index (Jan)
 - 12.6 vs -2 f'cast, -10.2 prev

Market Movement Recap

- 08:31 AM First move is weaker after lower jobless claims. MBS down an eighth and 10yr up 2.5bps at 4.157
- 10:50 AM Lows of the day after rebounding into the 9:30am hour. MBS down 6 ticks (.19) and 10yr up 2.6bps at 4.159
- 01:48 PM MBS down 6 ticks (.19) and 10yr up 2.1bps at 4.153
- 03:15 PM Weakest levels for Treasuries with 10yr up 3.2bps at 4.164. MBS still down 6 ticks (.19).

Lock / Float Considerations

- There were two ways to approach lock/float decisions yesterday afternoon (lenders who didn't reprice for the better had a bit of a cushion today, and it showed. Lenders who repriced were susceptible to today's weakness). Contrast that to this afternoon where there's been little to no repricing activity and

today's weakness). Contrast that to this afternoon where there's been little-to-no reprice activity and Friday's risk/reward profile is more balanced. Certainly, GSE MBS purchases offer some built-in insulation for risk-tolerant clients. But broader bond market bearishness and our nearness to multi-year lows in conventional rates present compelling lock opportunities for the risk-averse crowd.

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	4.171%	+0.039%
2 YR	3.566%	+0.056%

30 YR
5 YR

4.795%
3.769%

+0.013%
+0.061%

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