MBS Recap: Range Breakout Intensifies. Chicken or Egg?

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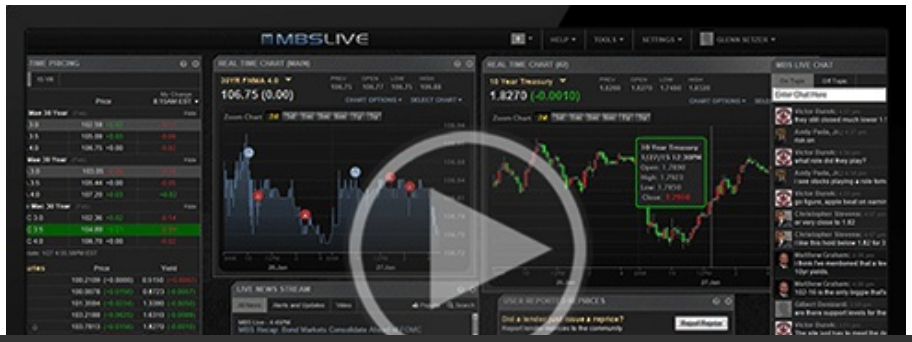
Range Breakout Intensifies. Chicken or Egg?

MBS Recap Matthew Graham | 4:50 PM

After months spent observing the same old range in the bond market, we're finally in the throes of a confirmed breakout. Unfortunately, the breakout has seen 10yr yields surge almost 10bps above the range ceiling in just 2 days. Technical analysts are high fiving each other because this is a classic breakout event (higher volume, sharper movement in the direction of the breakout). Fundamental traders are saying "not so fast" because there's nothing to say bonds couldn't be in decent shape today without fiscal drama in Japan or spiraling geopolitical tension over Greenland. We got unequivocal confirmation of the latter today when a Danish pension fund said it was pulling out of US Treasuries. That marked the day's biggest volume spike and sharpest selling.



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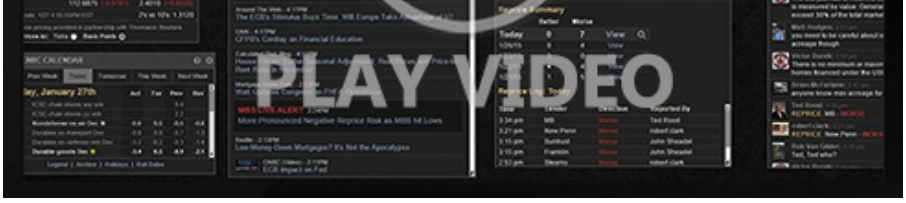

Watch the Video

MBS Morning

9:36 AM Bonds Brace For Greenland Fallout. Japan Not Helping Either

Alert

1:47 PM Down by Just Over an Eighth From Highs

3:58 PM

Econ Data / Events

- ADP weekly jobs
  - 8k vs 11.25k prev

Market Movement Recap

08:37 AM Sharply weaker overnight as bonds brace for fallout with Europe over Greenland push. 10yr up 6.1bps at 4.285. MBS down nearly 3/8ths of a point.

10:43 AM Bouncing back a bit. MBS down 5 ticks (.16) and 10yr up 4.7bps at 4.27

01:47 PM MBS now down 10 ticks (.31) on the day and almost 6 ticks (.19) off intraday highs. 10yr up 6.2bps at 4.286. No new drama. Just gradual selling.

Lock / Float Considerations

- Bonds positioned for geopolitical risk over the 3-day weekend, but apparently not enough. Lock/float risks remain asymmetric as a result (rallies would more likely be modest/gradual whereas sell-offs could be faster-paced). This is not directional guidance--merely an assessment that "bad stuff" would probably hurt more than the "good stuff" would help in the near term.

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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	4.294%	+0.071%
2 YR	3.597%	+0.012%
30 YR	4.922%	+0.086%
5 YR	3.860%	+0.045%

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