

# MBS & TREASURY MARKETS

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## MBS Recap: Bonds Erase Most of The Overnight Weakness



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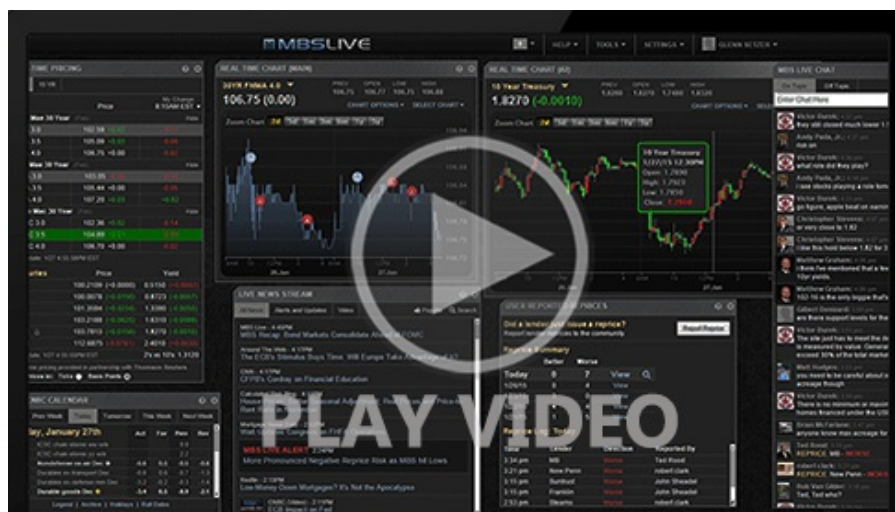
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## Bonds Erase Most of The Overnight Weakness

MBS Recap | Matthew Graham | 4:05 PM

Thursday could be viewed two ways. On one hand, bonds lost ground early and were unable to recover it by the 3pm close. On the other hand, there was a decent rally on Wednesday that set a high bar for additional gains. In other words, it's a victory to merely hold close to yesterday's closing levels. Data passed without a trace, either because it was stale, near consensus, or both. There was better buying in the afternoon--a fact that's consistent with our observation that the EU session had an impact today. The afternoon bond market recovery commenced when EU markets closed. Correlation, yes, but not necessarily causality.



## MBS Morning

9:39 AM No Reaction to Early Data, But Slightly Weaker Overnight

3:50 PM

## Econ Data / Events

- ○ Continued Claims (Jan)/10
  - 1,849K vs -- f'cast, 1884K prev
- Core PCE Prices QoQQ3
  - 2.90% vs 2.9% f'cast, 2.6% prev
- Corporate profitsQ3
  - 4.7% vs 4.4% f'cast, 0.2% prev
- GDPQ3
  - 4.4% vs 4.3% f'cast, 3.8% prev
- GDP Final SalesQ3
  - 4.5% vs 4.6% f'cast, 7.5% prev
- Jobless Claims (Jan)/17
  - 200K vs 212K f'cast, 198K prev
- PCE Prices (Q/Q)Q3
  - 2.8% vs 2.8% f'cast, 2.1% prev
- Core PCE (m/m) (Nov)
  - 0.2% vs 0.2% f'cast, 0.2% prev
- Core PCE (y/y) (Nov)
  - 2.8% vs 2.8% f'cast, 2.7% prev
- PCE (y/y) (Nov)
  - 2.8% vs 2.8% f'cast, 2.7% prev
- PCE prices (m/m) (Nov)
  - 0.2% vs 0.2% f'cast, 0.2% prev

## Market Movement Recap

08:34 AM Modestly weaker overnight and no reaction to AM data so far. MBS down an eighth and 10yr up

1.7bps at 4.258

- 10:30 AM No major reaction to PCE data. MBS still down an eighth and 10yr up 2bps at 4.261
- 12:37 PM Bouncing back a bit. MBS down only 2 ticks (.06) and 10yr up only 1.3bps at 4.254
- 03:22 PM MBS down 3 ticks (.09) and 10yr up 0.8bps at 4.249

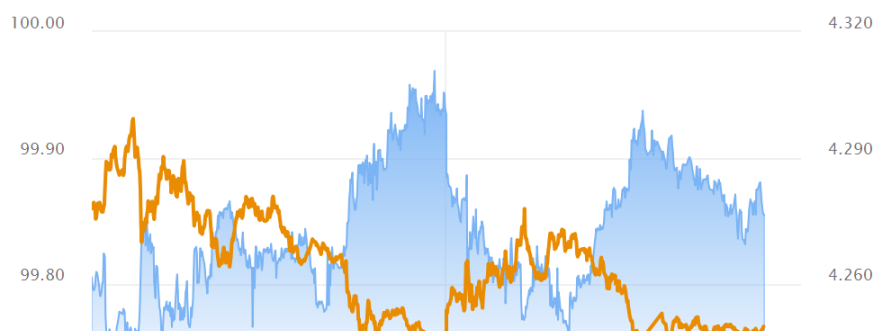
## Lock / Float Considerations

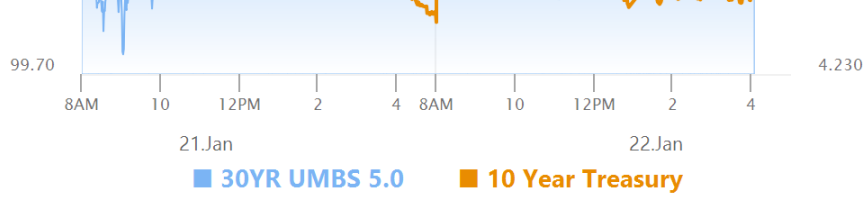
- Geopolitical risks began to ebb on Wednesday with potential Greenland de-escalation. This helps resolve and rebalance the asymmetric risk we noted on Tuesday. Bonds have been reasonably flat since then and data hasn't been notable. For risk-averse clients, it's worth remaining defensive until we can rule out an aftershock to Tuesday's sell-off. Either way, one of two things is required for a meaningful push back toward lower rates: more selling to set an entry point for buyers, or legitimate deterioration in big ticket data (and there's none on the horizon until the first week of February).

## 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 | 4.250% | +0.009% |
| 2 YR  | 3.612% | +0.024% |
| 30 YR | 4.844% | -0.016% |
| 5 YR  | 3.849% | +0.027% |

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