

MBS & TREASURY MARKETS

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A message from John "Demo" Lender:

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MBS Recap: Bonds Erase Most of The Overnight Weakness



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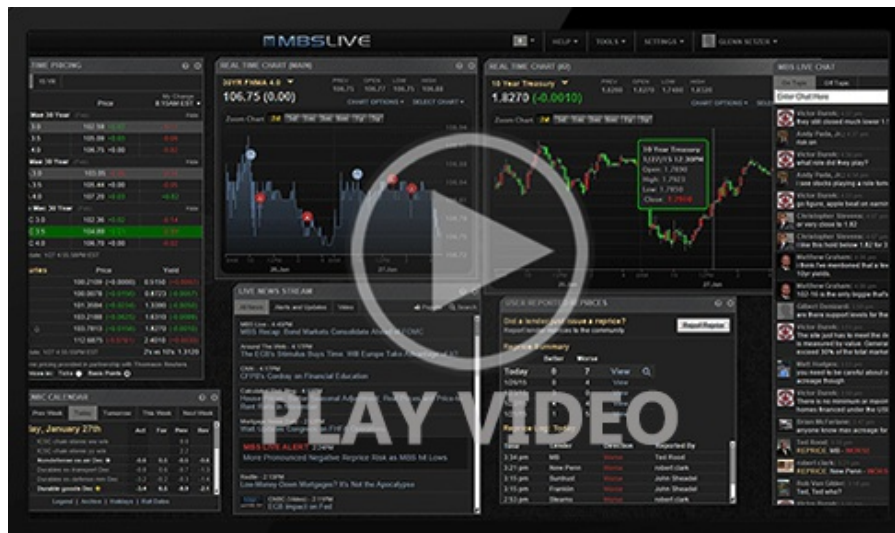
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Bonds Erase Most of The Overnight Weakness

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.



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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).

Technical/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	4.250%	+0.009%
2 YR	3.612%	+0.024%
30 YR	4.844%	-0.016%
5 YR	3.849%	+0.027%

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