

MBS Recap: Small, Steady Gains and MBS Outperformance



Joshua Champneys

Loan Officer, Empire Home Loans

www.MortgageDad.com

P: (406) 616-3233

M: (630) 991-3340

Serving MT, ID, WA, OR, CA, AZ, CO, TN, TX, IL, IN, MN, OH, FL, SC, NC +

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Small, Steady Gains and MBS Outperformance

MBS Recap | Matthew Graham | 3:59 PM

It was a relatively quiet Monday for the bond market, but not a bad one. Treasuries were modestly stronger overnight and MBS opened a few ticks higher. Durable goods data was much stronger than expected, but had no discernible impact. 10yr yields hit their lows of the day at 10:30am and then drifted sideways at just slightly higher (but still positive) levels. MBS, on the other hand, continued making modest gains throughout the day. Part of this had to do with yield curve steepening (i.e. shorter term yields fell more during the day, and MBS align with Treasuries that are a bit shorter than the 10yr note with which they're most frequently compared). But MBS also modestly outperformed even the 5yr Treasury yield--a fact that suggests some GSE bond buying may have contributed to spread tightening.



Watch the Video

MBS Morning

9:05 AM Starting Fairly Flat After Spicy But Stale Durable Goods

3:30 PM

Econ Data / Events

- ○ Core CapEx (Nov)
 - 0.7% vs -- fcast, 0.5% prev
- Durable goods (Nov)
 - 5.3% vs 3.7% fcast, -2.2% prev

Market Movement Recap

08:43 AM Slightly stronger overnight. Modest pull-back after Durable Goods. MBS unchanged and 10yr down half a bp at 4.226

12:17 PM 10yr down 1.3bps at 4.215 but off best levels of 4.203 around 10:30am. MBS up 2 ticks (.06) and at best levels of the day, perhaps signifying some GSE purchases behind the scenes.

03:17 PM Sideways in Treasuries with 10yr down 1.9bps at 4.21. MBS at highs, up an eighth of a point.

Lock / Float Considerations

Mortgage rates have some insulation against broader bond market sell-offs due to GSE MBS purchases

Mortgage rates have some insulation against broader bond market sell-offs due to GSE MBS purchases, but barring a big Treasury rally, the lower limit of the mortgage rate range was established in early January. One of two things is required for a meaningful push back toward lower rates: more selling to set an entry point for bond 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 | 4.212% | -0.016% |
|-------|--------|---------|

| | | |
|-------|--------|---------|
| 2 YR | 3.592% | -0.006% |
| 30 YR | 4.803% | -0.029% |
| 5 YR | 3.820% | -0.004% |

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