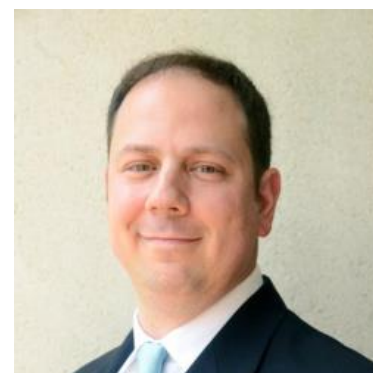


MBS & TREASURY MARKETS

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MBS Recap: Gradual Weakness After AM Gains



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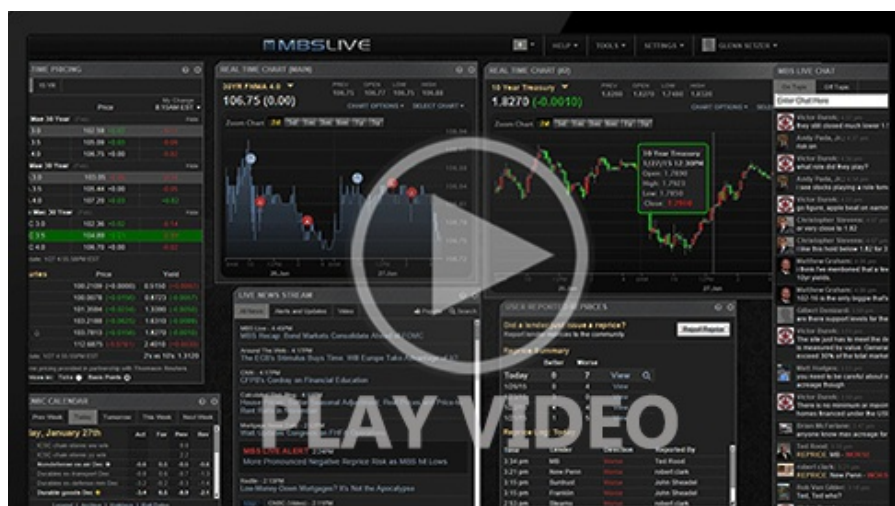
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Gradual Weakness After AM Gains

MBS Recap | Matthew Graham | 4:14 PM

Bonds began the day in weaker territory, but logged some solid gains in the first few hours. A small portion of the improvement could be arguably linked to the lowest Consumer Confidence reading since 2014 and the lowest "labor differential" of the present cycle (labor differential measures the spread between those who say there ample jobs available vs those who say jobs are hard to find). Shortly thereafter, yields began drifting higher. There was a barely noticeable bump toward weaker levels after a lackluster 5yr Treasury auction, but it could barely be distinguished from the typical random drift. 10yr yields refused to re-enter the sub-4.20% range. The Fed is on deck tomorrow, although with less than the normal amount of volatility potential (no dot plot, and near-zero odds of a rate cut or other policy shift).



MBS Morning

8:37 AM Gap Filled. Time to Sell?

3:48 PM

Econ Data / Events

- ○ ADP Employment Change Weekly
 - 7.75K vs 8.0K prev
- consumer confidence
 - 84.5 vs 90.9 f'cast, 94.2 prev
- Labor Differential (jobs plentiful vs jobs scarce)
 - 3.1 vs 5.9 prev
 - new cycle low

Market Movement Recap

- 08:15 AM Moderately weaker overnight with 10yr up 2bps at 4.233. MBS are outperforming along with the shorter end of the yield curve. 5.0 coupons are starting out just 1 tick (.03) weaker.
- 12:53 PM Decent recovery in the 9am hour and flat since then. MBS up 3 ticks (.09) and 10yr up less than half a bp at 4.217
- 03:23 PM Off best levels, but gently. MBS still up 1 tick (.03) and 10yr up 1.6bps at 4.229

Lock / Float Considerations

- 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	4.232%	+0.019%
2 YR	3.570%	-0.021%
30 YR	4.843%	+0.041%
5 YR	3.820%	0.000%

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