

MBS & TREASURY MARKETS

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MBS Recap: Best Levels in Weeks Ahead of High Stakes Jobs Report



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Best Levels in Weeks Ahead of High Stakes Jobs Report

MBS Recap | Matthew Graham | 3:05 PM

Rather than circle the wagons and consolidate the recent rally, bonds kicked the buying into higher gear on Tuesday thanks to a surprisingly weak Retail Sales report for December. This can be added to the list of recent data that has urged the bond market to get in position for a similarly weak jobs report tomorrow. Nearly 15bps of improvement in less than a week means that jobs would have to especially downbeat for this pace to continue. If the report surprises to the upside, bonds are at risk of a reasonably brisk correction, but as always, the scope of potential volatility depends on the deviation from the median forecast.

The screenshot shows the MBS LIVE interface. It features several windows: a 'REAL TIME PRICING' window on the left with a table of bond yields; a 'REAL TIME CHART (Bonds)' window showing a line graph of bond prices over time; a 'REAL TIME CHART (T-Bills)' window showing a line graph of T-Bill yields; and a 'MBS LIVE CHAT' window on the right with a list of messages. A large, semi-transparent 'PLAY VIDEO' button is overlaid at the bottom of the screen.



Watch the Video

MBS Morning

9:42 AM Bonds Taking a Pre-NFP Lead-Off

2:31 PM

Econ Data / Events

- - o Employment costs Q4
 - 0.7% vs 0.8% f'cast, 0.8% prev
 - o Import prices mm (Dec)
 - 0.1% vs 0.1% f'cast, -- prev
 - o Retail Sales (Dec)
 - 0% vs 0.4% f'cast, 0.6% prev
 - o Retail Sales Control Group MoM (Dec)
 - -0.1% vs 0.4% f'cast, 0.4% prev

Market Movement Recap

09:03 AM Gradually stronger overnight with additional gains after 8:30am data. 10yr down 5bps at 4.157 and MBS up 2 ticks (.06).

11:15 AM Additional gains. MBS up an eighth of a point and 10yr down 7.3bps at 4.135

01:10 PM off the best levels, but still stronger. MBS up 3 ticks (.09) and 10yre down 5.9bps at 4.149

02:55 PM Drifting sideways into the close with MBS up 2 ticks (.06) and 10yr yields down 6.1bps at 4.147

Lock / Float Considerations

- High risk / high reward ahead of Wednesday's jobs report, but it bears repeating that there's some measure of "lead-off" priced into current levels. Set-ups such as this have preceded some explosive rallies as well as some painful corrections. No way to know which one it will be ahead of time.
- Tuesday's Retail Sales extended the rate-friendly lead-off and created a good lock opportunity for risk-

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	4.141%	-0.066%
2 YR	3.452%	-0.039%
30 YR	4.784%	-0.076%
5 YR	3.695%	-0.050%

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