

MBS & TREASURY MARKETS

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



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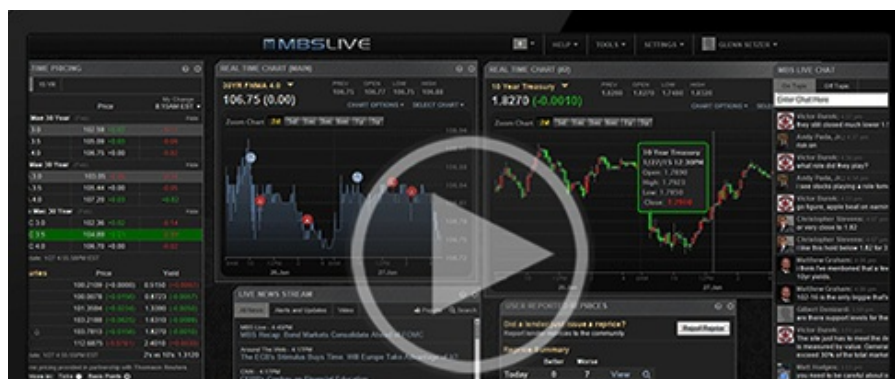
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Best Levels in Weeks Ahead of High Stakes Jobs Report

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.





Watch the Video

MBS Morning

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

2:31 PM

Econ Data / Events

- ○ Employment costsQ4
 - 0.7% vs 0.8% f'cast, 0.8% prev
- Import prices mm (Dec)
 - 0.1% vs 0.1% f'cast, -- prev
- Retail Sales (Dec)
 - 0% vs 0.4% f'cast, 0.6% prev
- 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

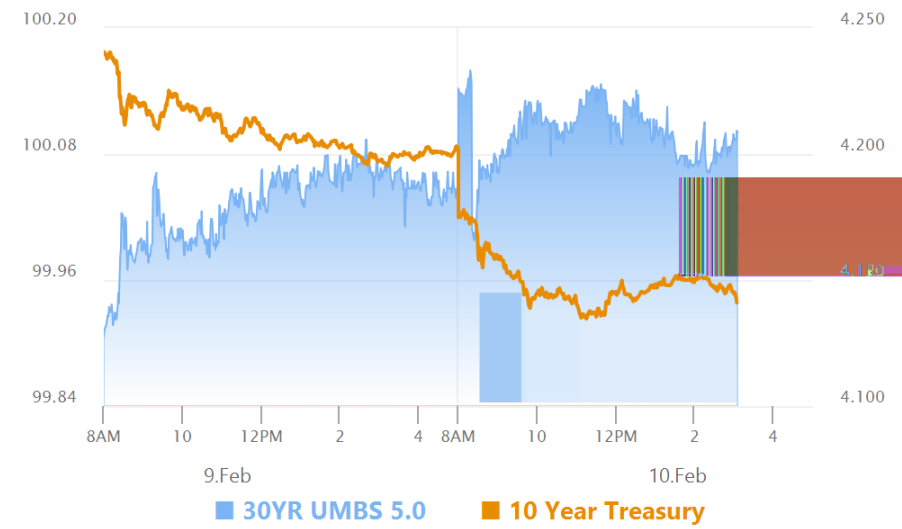
- High risk / high reward ahead of Wednesday's jobs report, but it bears repeating that there's some measure of "lead-off" priced into current levels. Set-ups such as this have preceded some explosive

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-averse clients.

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	4.794%	0.076%

30 YR
5 YR

4.784 %
3.695%

-0.078 %
-0.050%

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