MBS Recap: Stunning Resilience

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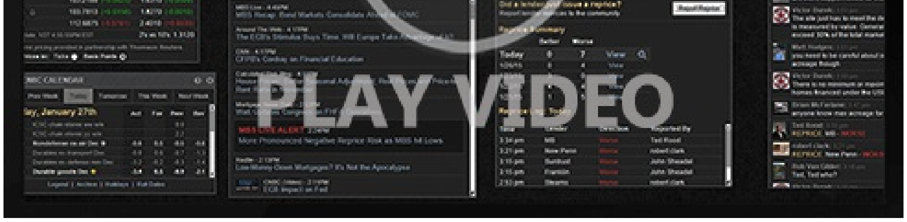
Stunning Resilience

MBS Recap Matthew Graham | 4:07 PM

One could argue that our bar is set too low if we view today's bond market resilience as "stunning," but if that's not the right word, it's damn close. Last Thursday saw yields drop 8bps, largely due to a trio of labor market reports that are nowhere near as heavily traded as today's jobs report. Yesterday's Retail Sales helped yields slight significantly below the 4.20% technical barrier. And now today, an effective 0.2% lower unemployment rate (0.1% in the rate itself + 0.1% implied by the higher participation rate) and big beat in the payroll count are worth only a 3bp sell-off to 4.175%? Yep, that's stunning. But why did it happen? That's a question without a great answer today. We'll discuss possibilities in today's recap video.



Watch the Video

Alert

8:33 AM Surprisingly Strong Jobs Report. Bonds on The Run

MBS Morning

9:48 AM Bonds Selling But Not Panicking After Super Strong Jobs Numbers

2:41 PM

Econon Data / Events

- Average earnings mm (Jan)
  - 0.4% vs 0.3% f'cast, 0.3% prev
- Non Farm Payrolls (Jan)
  - 130K vs 70K f'cast, 50K prev
- Participation Rate (Jan)
  - 62.5% vs -- f'cast, 62.4% prev
- Unemployment rate mm (Jan)
  - 4.3% vs 4.4% f'cast, 4.4% prev

Market Movement Recap

09:48 AM Quick selling after jobs report, but not as bad as it might have been. 10yr up 4.3bps at 4.185 and MBS down 1 tick (.03)

11:14 AM Impressive resilience continues. MBS unchanged and 10yr up only 2.7bps at 4.171

12:11 PM Even more impressive. MBS up 3 ticks and 10yr up only half a bp at 4.15

01:32 PM modest bounce after weaker 10yr auction. MBS unchanged and 10yr up 2.5bps at 4.169

03:18 PM Just a hair weaker with 10yr up 3.3bps at 4.177 and MBS still unchanged

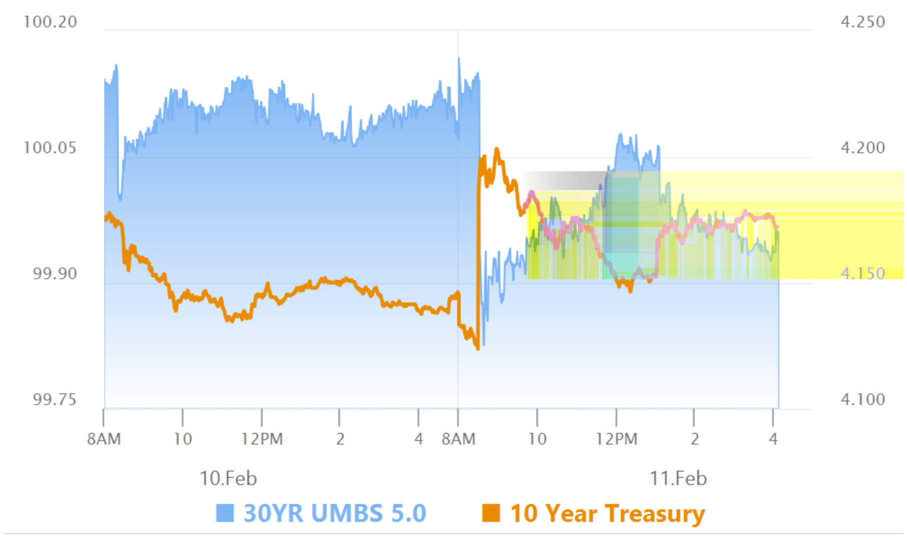
Lock / Float Considerations

- Surprisingly light sell-off in bonds on Wednesday relative to the jobs numbers. That said, given the tendency for lopsided jobs reports to set a momentum tone, floating is riskier than average. Friday's CPI is the next big flashpoint, though usually not as big as the jobs report.

Technicals/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	4.172%	+0.028%
2 YR	3.510%	+0.054%
30 YR	4.813%	+0.013%
5 YR	3.742%	+0.040%

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