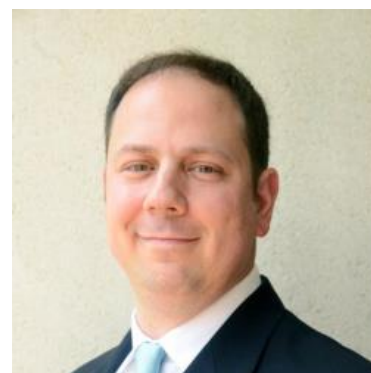


MBS & TREASURY MARKETS

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The Day Ahead: March Starts Sharply Weaker. Is it Iran?

Spoiler alert: it's not Iran. And this morning's yields are the 2nd lowest in more than 3 months behind last Friday. Last Friday was also a month-end trading day with a mini snowball rally that defied overt explanation (apart from "month end bond buying")--a fact that led us to warn about the risk of "new month bond selling." It's not that bonds always rally at month-end or sell off when the new month begins, but if there's a sharp, inexplicable move on the last day of any given month, the risks of a reversal increase on the first day of the following month. Geopolitical headlines may cause modest volatility here and there, but bonds' correlation with oil prices is not a reliable analytical focus.



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The next chart shows what oil and bond yields had been doing on the last 3 days of last week. Notice the extreme absence of correlation.



Here's the move so far today--the one that has people concluding that bond yields are higher because oil is higher. In fact, versus the 3pm CME close on Friday, bonds were flat until 7am. By that time, oil had already experienced almost all its volatility for the day. The crux of the bond sell-off played out in a vacuum--STRONGLY suggesting Friday's yields were dragged down by month-end buying and this morning's selling is "new month" positioning.

