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MBS Recap: Big Bad Day For Bonds. What's Next?



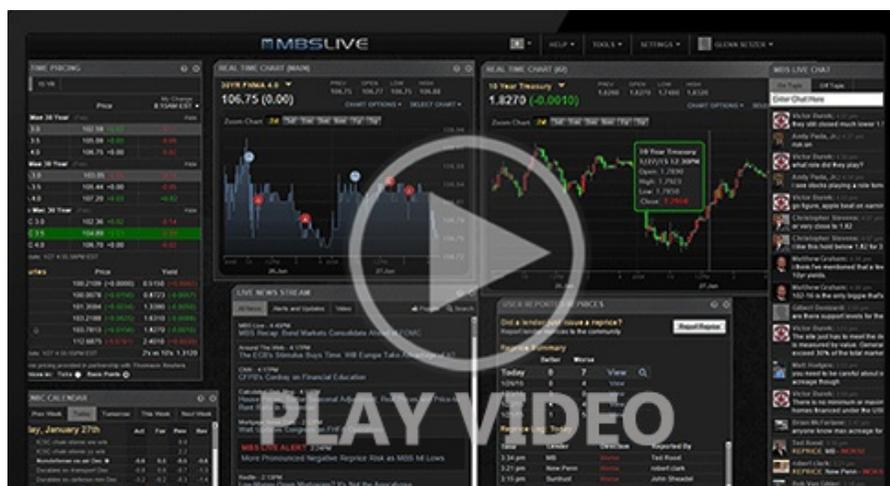
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Founder and CEO, MBS Live



Big Bad Day For Bonds. What's Next?

MBS Recap | Matthew Graham | 3:40 PM

Bonds sold off early and aggressively on Monday in a move that most onlookers are quickly attributing to geopolitics. Specifically, the thought is that higher oil prices imply higher inflation and, thus, higher rates. While some traders probably woke up and decided to sell bonds based on this logic, they didn't account for the pace of the sell-off. Rather, it was a perfect storm of timing and technicals with Friday's month-end positioning leaving bonds overbought and well through the 4% technical floor. Today ran the risk of being a selling day anyway, but the obvious goal of re-entering the 4%+ range made it that much more swift. Closing out at 4.04% doesn't seem too bad in the bigger picture. It's a hard reset in the short term, but not necessarily a sign of additional momentum. For that, this week's econ data would need to gang up and send a bullish message for the economy.



MBS Morning

9:32 AM March Starts Sharply Weaker. Is it Iran?

Alert

11:40 AM Down an Eighth From AM Highs

3:32 PM

Econ Data / Events

- ○ ISM Manufacturing Employment (Feb)
 - 48.8 vs -- f'cast, 48.1 prev
- ISM Manufacturing PMI (Feb)
 - 52.4 vs 51.8 f'cast, 52.6 prev
- ISM Mfg Prices Paid (Feb)
 - 70.5 vs 59.5 f'cast, 59.0 prev

Market Movement Recap

- 09:08 AM Mostly flat overnight with sharper selling starting at 7am. 10yr up 5.9bps at 4.009 and MBS down just over a quarter point.
- 10:04 AM a bit more weakness after ISM data. MBS down 10 ticks (.31) and 10yr up 8.8bps at 4.036
- 11:40 AM New lows with MBS down 3/8ths and 10yr up 10.3bps at 4.051
- 03:30 PM MBS still down 3/8ths and 10yr up 9.9bps at 4.046

Lock / Float Considerations

- Last Friday, we cautioned that "some of the strength could be driven by month-end trading, in which case the coming week could see some excess selling pressure unrelated to the data." The start of the new week put an exclamation point on that thought. Geopolitical considerations make for a volatile backdrop, but the incoming econ data should do more to set the directional tone.

Technical/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	4.046%	+0.097%
2 YR	3.479%	+0.101%
30 YR	4.697%	+0.081%
5 YR	3.614%	+0.113%

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