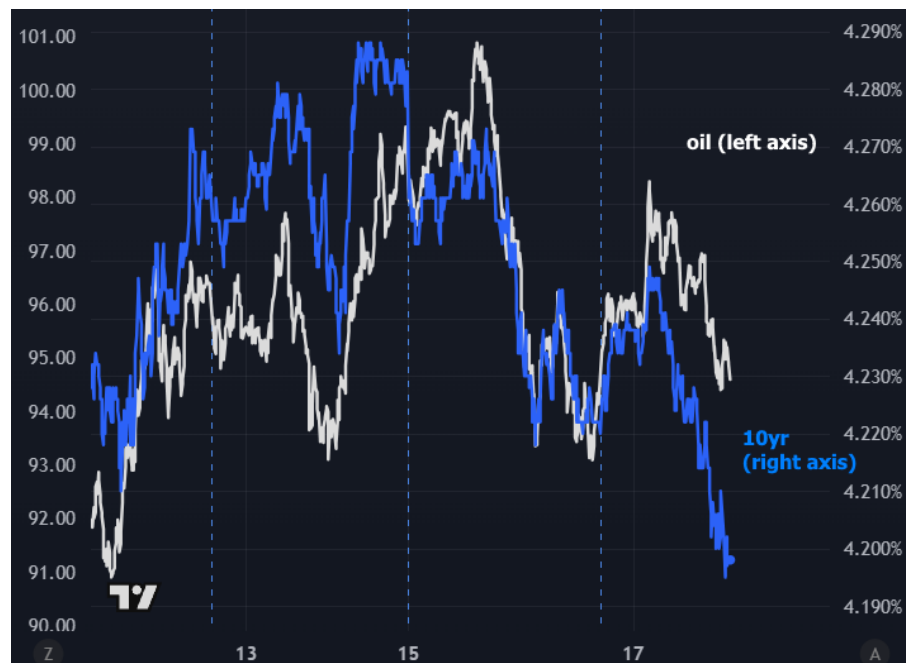


MBS & TREASURY MARKETS

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The Day Ahead: Another Solid Start, But Without as Much Help From Oil

Until the end of the Iran war, bond traders are keeping oil prices on their screens and comparing oil price movement against bond market movement as the first task on the daily checklist. In so doing, we see a bit of outperformance on the part of bonds this morning. While there is solid directional correlation (i.e. yields and oil were moving in the same directions at the same times), bond yields are lower today while oil is still a bit higher. Surprisingly, today's highest minute of volume happened with the 8:15am ADP data which showed its biggest drop in months. That said, there was not a big reaction in yields. The easiest conclusion for now is that bonds are taking some solace in an absence of big, new surges in oil prices as well as some supportive cues from the 4.30% bounce seen last Friday.



Dan Clifton

The Home Loan Guru,
Clifton Mortgage Solutions

CliftonMortgageSolutions.com

P: (888) 681-0777

M: (407) 252-3039

dan@cliftonmortgagesolutions.com

1177 Louisiana Ave
Winter Park FL 32789

NMLS#284174



Gina Carbonetti

Realtor, Home Again Realty

<https://GinaMovesYou.com>

P: (407) 252-3039

M: (407) 928-0036

Gina@FLHomesByGina

1177 Louisiana Ave
Winter Park Florida 32789

BK3055442



