**A message from Marc Erickson:**

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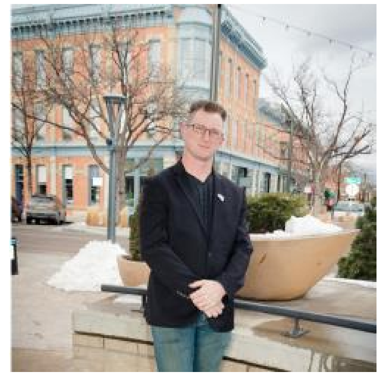
# MBS Recap: Why Were 10yr Yields Only a Few bps Lower Today?



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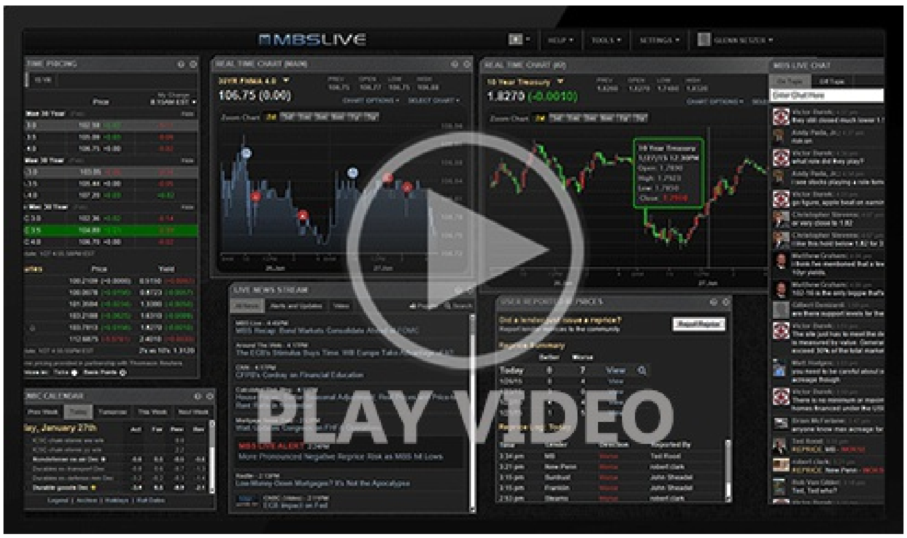
## Why Were 10yr Yields Only a Few bps Lower Today?

MBS Recap Matthew Graham | 4:41 PM

If you missed this morning's commentary, the gist is that inflation for June (via the CPI report) came in much lower than forecast (biggest "miss" in over a year). Given the market's preoccupation with inflation, this logically resulted in an immediate bond rally. 10yr yields only ended up a few bps lower by the end of the day. There are 3 key reasons. The first is purely mechanical and it has to do with the shorter-term rates benefitting the most. Fed Funds Futures did the best with the end-of-year implied rate falling an eighth of a point (or one half of a rate hike erased). It's common to see longer term bonds lag these moves with direct Fed rate implications. That said, we would have expected short term rates to do better as well were it not for the fact that fuel prices bottomed in June (when this data was collected) and have since been moving back up fairly quickly. The 3rd reason is related but more timely: fuel prices fell with bond yields into the 11am hour, but erased those gains after that.

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| MBS Morning | |
|---|---|
| 8:56 AM | Strong Start After Sharply Lower CPI |
| 3:28 PM | |

## Econon Data / Events

- m/m CORE CPI (Jun)
  - 0.0% vs 0.2% f'cast, 0.2% prev
- m/m Headline CPI (Jun)
  - -0.4% vs -0.1% f'cast, 0.5% prev
- y/y CORE CPI (Jun)
  - 2.6% vs 2.8% f'cast, 2.9% prev

- y/y Headline CPI (Jun)
  - 3.5% vs 3.8% f'cast, 4.2% prev

## Market Movement Recap

08:32 AM stronger after CPI.  10yr down 7.6bps at 4.541.  MBS TBD, but should be up more than a quarter point soon when they catch up

11:53 AM off the strongest levels on a combination of war headlines and Warsh inflation commitments.  MBS up 11 ticks (.34) and 10yr down 2.9bps at 4.587

01:53 PM MBS up 3/8ths and 10yr down 3.4bps at 4.581

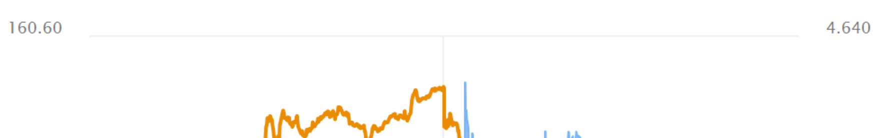
## Lock / Float Considerations

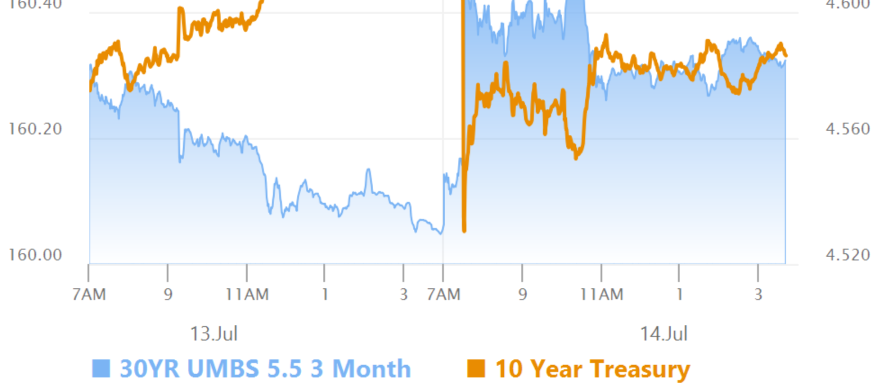
- 7/14/26 - Reprieve from the surprisingly low CPI numbers, but not even enough to counteract yesterday's weakness. Bonds will need more convincing. Floating remains risky until we see a much stronger show of support (today's was somewhat underwhelming relative to the inflation data--likely because the fuel price situation has re-spiked since June's data collection).

## Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
  - 4.59
  - 4.51
  - 4.42
- Floor/Resistance
  - 4.19
  - 4.28
  - 4.34
  - 4.36

## MBS & Treasury Markets






## MBS

| | |
|---|---|
| 30YR UMBS 5.5 | + |
| 30YR UMBS 6.0 | + |
| 30YR GNMA 5.5 | + |
| 15YR UMBS-15 5.0 | + |

## US Treasuries

| | | |
|---|---|---|
| 10 YR | 4.586% | -0.030% |
| 2 YR | 4.189% | -0.084% |
| 30 YR | 5.100% | -0.007% |
| 5 YR | 4.315% | -0.062% |

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