MBS & TREASURY MARKETS
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MBS Recap: What's Up With Today's Paradoxical Fed Reaction?

Gary Kesler
Executive Finance Manager, Central Valley Home Lending
www.cvhlending.com
M: (916) 804-0142
gary@cvhlending.com
3461 Fair Oaks Blvd. Ste 125
Sacramento CA 95864
CVHL NMLS #2455817
MLO NMLS #693579

Central Valley Home Lending

What's Up With Today's Paradoxical Fed Reaction?

MBS Recap Matthew Graham | 5:37 PM

Tough day for the casual observer to try to make sense of what happened. There's even some disagreement between the not-so-casual observers. Let's focus on what we can know for sure. The Fed didn't hike. The market was pricing a 1 in 3 chance of a hike, so the shortest end of the curve logically rallied on that. Longer term rates rallied a bit too, at first. No surprises as of 2:30pm. Warsh's prepared remarks weren't significant, and the rally remained intact. Things began to change rapidly when he suggested looking beyond PCE to a broader set of inflation data to achieve the 2% target. While that could speak to a genuine desire to improve the Fed's understanding of inflation, the market could also view it as an excuse to avoid hiking. He also suggested that there was less urgency to consider a hike because the bond market was already doing the Fed's job by moving toward higher rates. Traders could also view this as an excuse to avoid hiking. Taken together, cynical traders might even be thinking that Warsh will continue to talk tough on inflation, but also continue forcing the long end of the yield curve to do the Fed's heavy lifting. In May, we warned that the long end would quickly punish any perceived attempt to keep the short end artificially lower and today was the first day where that offered the cynics a shred of evidence. NOTE: we take no position on whether the cynics are right or wrong, but this is the most obvious way to justify an otherwise excessively paradoxical reaction--ESPECIALLY when we consider that bonds stopped selling the moment the press conference ended.

Watch the Video

MBS Morning

9:49 AM "Pause" Ends in Iran, But Probably Not For The Fed

Alert

12:08 PM New Lows

Commentary

2:00 PM Here's What Changed in The New Fed Announcement

Alert

3:46 PM Lenders Who Dropped Rates After Fed May Need to Reprice

Alert

4:19 PM Negative Reprice Risk Increasing

4:45 PM

Market Movement Recap

08:49 AM Logically weaker overnight as Iran fighting resumes. MBS down an eighth and 10yr up 2bps at 4.628

12:08 PM Weakest levels. MBS down 7 ticks (.22) and 10yr up 4.1bps at 4.648

02:02 PM First move is stronger after Fed holds rates. MBS approaching unchanged levels and 10yr still up 1.4bps on the day at 4.62

04:20 PM weakest levels. MBS down 9 ticks (.28) and 10yr up 8.6bps at 4.693

Lock / Float Considerations

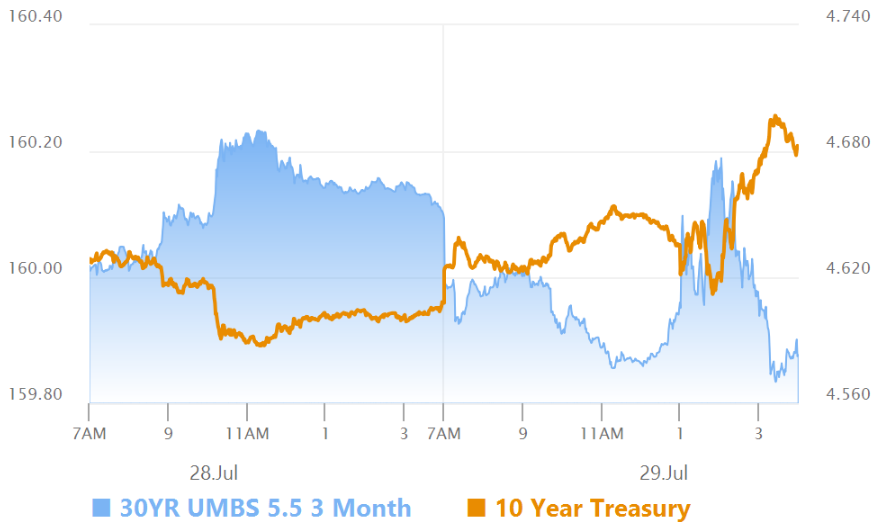
- 7/29/26 - Paradoxical reaction to "no cut" from the Fed suggests bond market's concerns over the monetary policy regime. This isn't something that can change quickly! At the very least, the only safe bet on days like today is to make sure this move has run its course before adjusting your lock/float strategy. In other words, guard against the possibility that things get worse before they get better until you actually see the "get better" part.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
  - 4.80
  - 4.71

- Floor/Resistance
  - 4.42
  - 4.54
  - 4.62

MBS & Treasury Markets



MBS

30YR UMBS 5.5

30YR UMBS 6.0

30YR GNMA 5.5

15YR UMBS-15 5.0

15YR UMBS-15 5.0

US Treasuries

10 YR	4.680%	+0.073%
2 YR	4.279%	-0.003%
30 YR	5.198%	+0.108%
5 YR	4.406%	+0.031%

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