MBS Recap: Esoteric Forex Drama Blasts Bonds, Maybe

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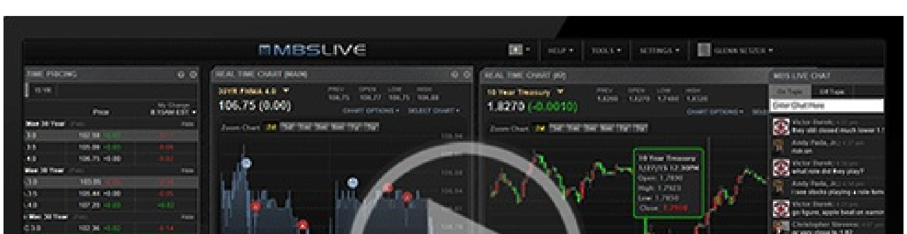
Esoteric Forex Drama Blasts Bonds, Maybe

MBS Recap Matthew Graham | 4:07 PM

Friday was very much NOT on the beaten path of typical bond market considerations with most of the selling arguably stemming from Japanese currency intervention. We've seen similar episodes in the past, but today's installment came with a twist. In addition to Japan confirming it was selling foreign bonds to prop up Yen values, the U.S. Treasury also apparently got involved. It warned dealers that it could make trades to support the Yen. No one but those involved knows if that means anything beyond using the ESF to execute currency trades, but the net effect seems to have been to grease the skids for U.S. accounts to sell Treasuries first and ask questions later. This isn't necessarily the final story either. It was also month-end, and it's also the week before the jobs report on a summertime Friday. Volume was fairly light relative to the size of the sell-off.



Watch the Video

MBS Morning

9:09 AM Japan Currency Intervention, Oil, and Data Causing Some Selling

Alert

9:46 AM Quickly Moving to New Lows

1:48 PM

Alert

1:52 PM More Yen Intervention. New Lows For MBS

Econon Data / Events

- - Employment costsQ2
    - 0.9% vs 0.8% f'cast, 0.9% prev

Market Movement Recap

08:39 AM Weaker after ECI data. MBS down about an eighth and 10yr up 2.3bps at 4.696

10:29 AM Sharply weaker. MBS down a quarter point and 10yr up 4.9bps at 4.722

01:06 PM Weakest levels. MBS down almost 3/8ths and 10yr up 6.2bps at 4.736

Lock / Float Considerations

- 7/31/26 - Fed-related risks replaced with forex drama and a big technical breakout in Treasuries. Since the re-start of the Iran war, we've been waiting for bonds to demonstrate the ability to string together a convincing rally and that's not something we can even begin to measure on a day of heavy selling.

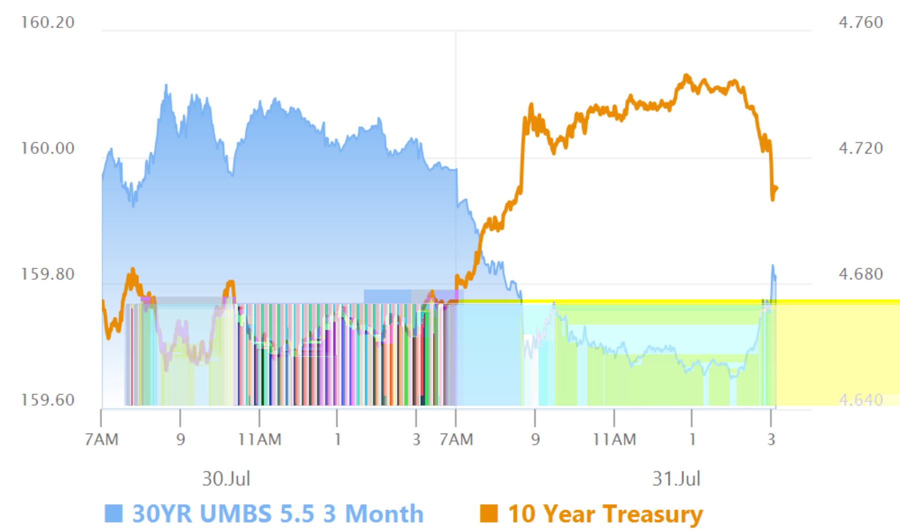
Floating is for those who feel they can catch falling knives. Everyone else is waiting for the thing that hasn't yet begun. Once it begins or even looks like it's beginning, we'll be talking all about it.

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		

US Treasuries

10 YR	4.711%	+0.037%
2 YR	4.273%	+0.023%
30 YR	5.250%	+0.038%
5 YR	4.426%	+0.034%

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