MBS & TREASURY MARKETS
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MBS Recap: Bonds End Flat After Front-Running The Decent Data

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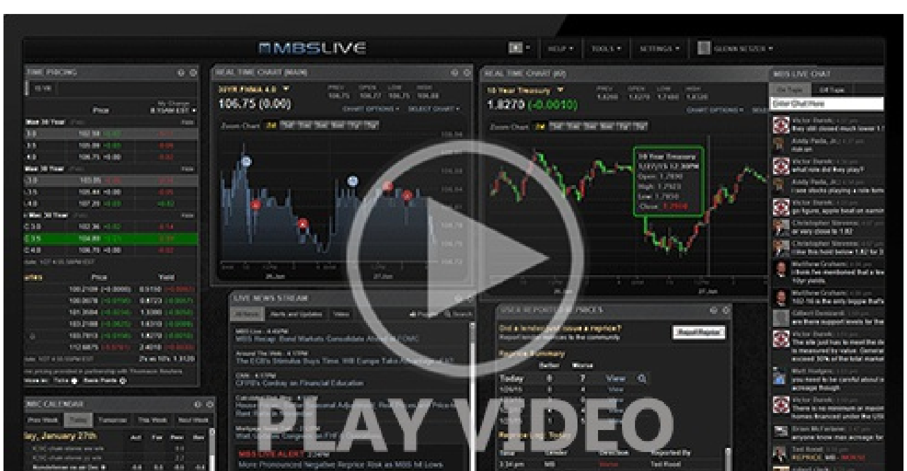
Bonds End Flat After Front-Running The Decent Data

MBS Recap Matthew Graham | 5:09 PM

We absolutely hate the term "front-running" because it can be perceived as connoting some measure of clairvoyance on the part of the bond market. To be clear, that's not the contention here. Rather, we noted that bonds were trading somewhat optimistically yesterday in that they outperformed their typical correlation with oil prices. That theme continued overnight and promptly ended when CPI came out right in line with forecasts. There are several ways to reconcile this turn of events, but one of the easiest is to speculate that traders indeed saw some sort of asymmetric risk in favor of bond buying ahead of CPI. The rest of the day was spent gradually returning to unchanged levels with yields still doing their best to defend longer-term ceilings (around 4.70% in terms of the 10yr).



Watch the Video

MBS Morning

9:44 AM No Major Reaction to As-Expected CPI

Alert

11:09 AM Down an Eighth From Highs

Alert

2:30 PM Negative Reprice Risk Increasing

4:54 PM

Econon Data / Events

- m/m CORE CPI (Jul)
  - 0.2% vs 0.2% f'cast, 0% prev
- m/m Headline CPI (Jul)
  - 0.1% vs 0.1% f'cast, -0.4% prev
- y/y CORE CPI (Jul)
  - 2.5% vs 2.5% f'cast, 2.6% prev
- y/y Headline CPI (Jul)
  - 3.4% vs 3.4% f'cast, 3.5% prev

Market Movement Recap

08:41 AM MBS up 6 ticks (.19) and 10yr down 3.8bps at 4.654. No major reaction to CPI.

12:58 PM MBS up 6 ticks (.19) and 10yr down 1.7bps at 4.675

Lock / Float Considerations

- 8/12/26 - With the "optimism" we noted yesterday having run its course, and no relief rally after today's 10yr auction, this is another logical opportunity for risk-averse clients to take chips off the table. Risk takers are once again basically out of room between current levels and overhead lock triggers.

Thursday's PPI generally has less of a chance to cause a response than CPI, but must still be respected as a potential source of volatility.

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	4.698%	+0.006%
2 YR	4.199%	-0.018%
30 YR	5.260%	+0.019%
5 YR	4.377%	-0.008%

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