A message from Marc Erickson:

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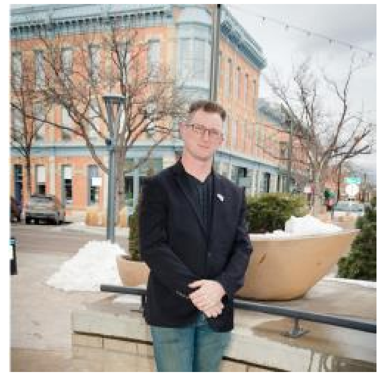
MBS Recap: AM Rally Completely Erased By The Close



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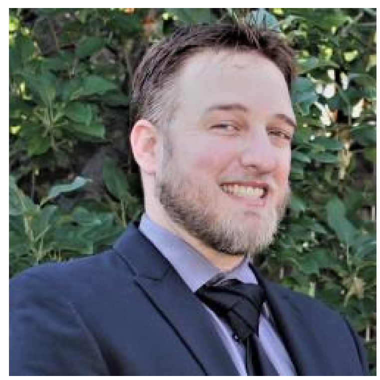

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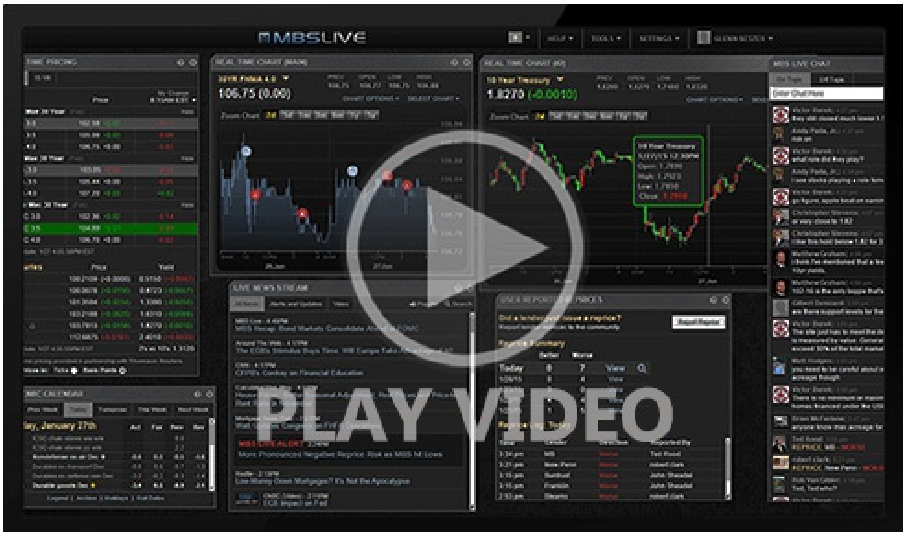
AM Rally Completely Erased By The Close

MBS Recap Matthew Graham | 5:29 PM

This morning's paradoxical rally lasted 30 whole minutes. Bonds turned around at exactly 9am and proceeded to completely erase the AM gains. There were no compelling macro motivations for the reversal apart from a modest rise in oil prices. While oil price lows and highs perfectly matched bond yields in terms of timing, the bond selling was disproportionately larger. This is highly suggestive of short covering being a component of the morning rally. In other words, traders who had open bets on higher rates simply closed those positions quickly this morning. From that point on, the market was free to trade as it pleased. 2yr/10yr spreads remained mostly flat which suggests broad selling across the curve and no change in the paradoxical sentiment component of the AM rally. Bottom line: there were two rally motivations this morning, and one of them left the bond market open to correction.



Watch the Video

Alert

8:32 AM More Selling After CPI Comes in Slightly Hot

Update

8:44 AM Back Into Positive Territory

MBS Morning

9:43 AM Paradoxical Rally in Bonds Thanks to Higher Fed Hike Odds

Alert

12:01 PM Down Over an Eighth From Rate Sheet Print Times

Alert

2:19 PM Negative Reprices Becoming More Likely

3:40 PM

Econ Data / Events

- m/m CORE CPI (Aug)
  - 0.3% vs 0.2% f'cast, 0.2% prev
- m/m Headline CPI (Aug)
  - 0.4% vs 0.4% f'cast, 0.1% prev
- y/y CORE CPI (Aug)
  - 2.4% vs 2.4% f'cast, 2.5% prev
- y/y Headline CPI (Aug)
  - 3.4% vs 3.4% f'cast, 3.4% prev

Market Movement Recap

08:45 AM — 2 way trading after CPI. MBS up 2 ticks (.06) and 10yr down 1.9bps at 4.947

12:45 PM — Off best levels. MBS up 3 ticks (.09) after being up 3/8ths earlier this morning. 10yr still down 1.8bps at 4.947 but up from lows of 4.904.

03:50 PM — MBS down 3 ticks (.09) and 10yr up half a bp at 4.97

Lock / Float Considerations

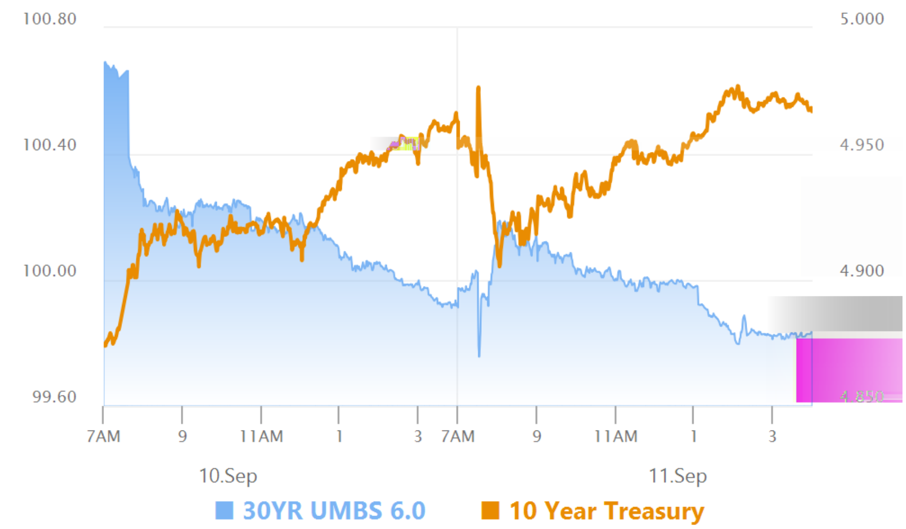
- 9/11/26 - Today was a good reminder of the power of prevailing momentum. Even when it looked like we were winning, we were still losing. As always, a highly defensive strategy is the only strategy when bonds are in snowball selling mode. Of course, heavy selling introduces the possibility of a big individual bounce at some point, but it's not something that can be reliably timed/predicted and there's never a guarantee that such bounces are lasting turning points.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
  - 5.00
- Floor/Resistance
  - 4.54
  - 4.62
  - 4.71
  - 4.80

- 4.83
- 4.93

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	4.970%	+0.005%
2 YR	4.619%	+0.040%
30 YR	5.355%	-0.010%
5 YR	4.784%	+0.027%

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