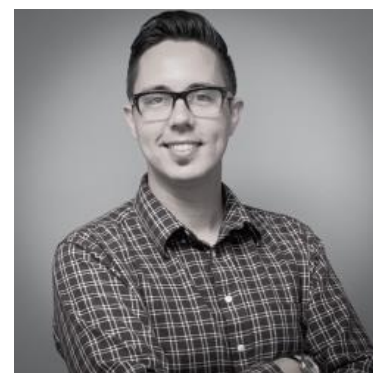


MBS & TREASURY MARKETS

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The Day Ahead: More Mid-Morning Selling, But MBS Outperforming

10yr yields began the morning in slightly stronger territory, generally following a modest decline in oil prices overnight. That trend actually ran its course by 5am ET and yields began rising gradually at that time. Sellers picked up the pace after 10am (partly oil-related, but certainly also plenty of bond-specific selling pressure). Yields are now up a few bps on the day with the 10yr at 5.227 as of 10:45am. MBS, meanwhile are still just a hair stronger (though they've also lost ground at the same time as Treasuries). The outperformance has a lot to do with the yield curve today. Shorter term yields are still green, and MBS tend to trade less like a 10yr and more like a 5yr. The rest of the day is anyone's guess. There's a lot of fear and uncertainty in the bond market this week. Next week's econ data is high-stakes, and the month/quarter-end trading environment adds extra potential volatility to the mix.



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