

MARKET SUMMARY

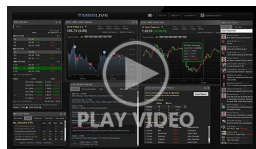
Complete Recap of Today's Market Activity

10yr Auction to The Rescue

Market Summary: Tuesday, May 6, 2025 - 6:28PM

Today's 10yr Treasury auction was the only relevant calendar event in terms of potential market movement and it lived up to its billing. Unlike the set-up to many auctions, there was no meaningful weakness in bonds ahead of the 1pm cut-off. The results themselves were decidedly strong and the immediacy of the market reaction reflected that. Yields dropped 4bps more or less instantly, and MBS ultimately added another eighth of a point of improvement to the eighth that was already in play before the auction. From here, attention turns to Wednesday's Fed announcement, specifically for Powell's press conference (because there's zero chance of a rate cut at this meeting).

Latest Video Analysis



10yr Auction to The Rescue



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UMBS 5.5	99.33	+0.25	10YR	4.298%	-0.047%	5/6/2025 5:00PM EST
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Moving Into Positive Territory After 10yr Auction

- 10yr Treasury Auction
 - 4.342 vs 4.354 expectations (1.2bps beat)
 - Bid to cover: 2.60 vs 2.48 average

Quick deep dive on Treasury auction info (more details in the):

There are two versions of Treasury note auctions (Notes=10yr+): refundings and reopenings.

A refunding means that a new Treasury coupon is being created whereas a reopening simply allows for additional sales of existing coupons. This happens on a 3 month cycle (m1-refunding, m2-reopening, m3-reopening) and then resets.

A lot of folks on the internet and TV offer auction opinions. One thing almost all of them miss is the fact that reopenings and refundings have distinctly different patterns of performance. Refundings overwhelmingly average lower bid-to-cover (ratio of dollars bid to the total auction amount) and poorer yield performance, i.e. they're more likely to "tail" (when the auction's high yield comes in above the 1pm expectation) than "stop through" (when the high yield comes in lower than expectations). In both cases, expectations refer to the 1pm "when-issued" 10yr yield--a contract that allows traders to trade the new coupons before the auction.

With all of the above in mind, we can now qualify this auction as much stronger than it seems at first glance. Reason being, the typical refunding auction comes in 0.7bps higher than expected while reopenings have come in 1.0bps lower. Additionally, refundings have average a 2.48x bid to cover whereas reopenings have averaged 2.60x.

For clarity, if we forget reopenings and refundings (the thing the average commentator is doing), they'd see a recent average of -0.7bps on the yield and 2.59x on the bid to cover. That would still imply today's auction (-1.2bps and 2.60x) was strong, but not as strong as it actually was.

Big bond traders are all over this though, which is why the market has reacted in a noticeable way. 10yr yields are down 4bps almost instantly (3bps total on the day) to 4.315.

MBS aren't the star of this show, but they've been pulled higher as well, with 5.5 coupons now up almost an eighth of a point.

MBS MORNING: 2-Way Trading, Slightly Weaker Start

MBS MORNING: Another ISM Report That Wasn't Weak Enough to Help Bonds

Today's Mortgage Rates

30YR Fixed	6.88%	-0.02%	15YR Fixed	6.21%	-0.01%	5/6/2025
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Mortgage Rates Improve Slightly After Starting Out Flat

were unchanged for the average lender this morning, thanks to a modest improvement in the bond market overnight. Rates were on course to remain mostly flat until the afternoon's scheduled 10yr Treasury auction. The market's reaction to the auction allowed many lenders to revise mortgage rates slightly lower.

Mortgage rates are based on securities that are similar to US Treasuries in many ways. As such, when something happens that impacts Treasuries, the mortgage securities market tends to feel it. This doesn't always prompt an immediate change in mortgage rates because lenders only tend to make mid day changes when the underlying market makes a big enough move.

Today's market movement wasn't exactly massive, but it was enough for most lenders to make an adjustment. In the bigger picture, a strong reception for a 10yr Treasury auction is reassuring for rates in general. That said, it will continue to be economic data and key fiscal developments that dictate momentum going forward.

Economic Calendar

Last Week | This Week | Next Week

Time	Event	Actual	Forecast	Prior
Tuesday, May 06				
8:30AM	Mar Trade Gap (bl)	\$-140.5B	\$-137B	\$-122.7B
10:10AM	May IBD economic optimism	47.9	50.2	49.1
10:30AM	NY Fed Treasury Purchases 0 to 1 yrs (%)		\$75 million	
1:00PM	10-Year Note Auction ★	4.342%		4.435%
1:00PM	10-yr Note Auction (bl) ★	42		
Wednesday, May 07				
7:00AM	May/02 MBA Purchase Index	162.8		146.6
7:00AM	May/02 MBA Refi Index	721		649.0
10:30AM	May/02 Crude Oil Inventory (ml)	-2.032M	-1.7M	-2.696M
2:00PM	Fed Interest Rate Decision ★★		4.5%	4.5%
2:30PM	Fed Press Conference ★★			
3:00PM	Mar Consumer credit (bl)		\$9.5B	\$-0.81B

Recent Housing News

- Home Price Appreciation Remains, But Interesting Trend Emerges
- Mortgage Applications Contract Slightly, But Remain Above 2 Year Average
- Existing Home Sales at 5 Month Lows

Rates Move Up After Stronger Economic Data

Whether you refer to it as "strong," or "not as bad as feared," this week's economic reports were better than the market was prepared for. The result is moderately higher rates. Interest rates are driven by movement in the bond market, and the bond market is always interested in economic data. Occasionally, the economic data can be boring enough or other events can be important enough to cause ...

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