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A Message from Jeffrey Chalmers:

"Where are we..."

What's Up With The Crazy MBS Sell-Off (and Bounce)?!

Just before 11am, we saw a move in MBS like few we've experienced since the financial crisis. WELL before the correlated move in Treasuries, MBS prices began to tank for no apparent reason. Even now, there is still no apparent reason specific to the time of day when it occurred, and it may continue to be a mystery. At times like this, less scrupulous commentators will gather a laundry list of likely suspects and ascribe the movement to those things as if they know are sure.

No one is sure. I mean, perhaps one or two large bond traders suspect their actions were part of the move, but other bond traders then jumped on the bandwagon.

It began with a mass liquidation of MBS. Sellers were updating their offer prices much more rapidly than buyers were entering bids. Sellers quickly tripped over each other to get prices significantly lower. This speaks to a huge glut of new supply and could also potentially speak to a surge in fear regarding that supply. In other words, a trader could have seen MBS start to move and then considered the implications of this morning's ridiculous record-setting jump in refinance apps and subsequently concluded that other traders were running for the exits. They then may simply have jumped on the bandwagon.

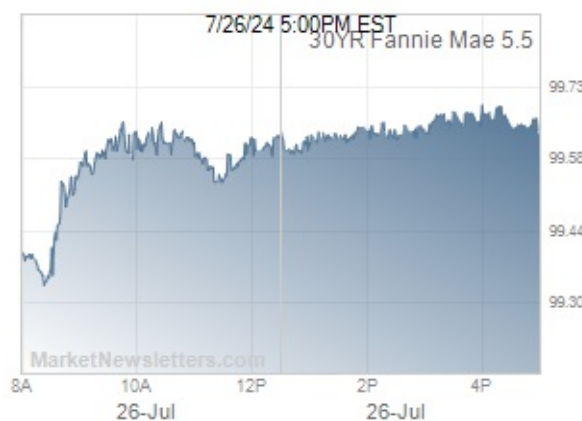
At the same time, or shortly thereafter, Treasuries began losing ground. Some of the weakness may be directly connected to the MBS weakness (i.e. big accounts can employ Treasury selling in hedging strategies), but there's certainly some apprehension about the 10yr Treasury auction coming up at 1pm.

Either way, MBS sellers ran out of gas when the offer price was around 101-08 (101.25) in 2.5 UMBS. Buyers were definitely on strike at that point but eventually came back up to meet sellers at the aforementioned price by 11:35am. That was the end of the mystery move and MBS have subsequently gained a quarter of a point even as 10yr yields moved higher.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.68	+0.27
MBS GNMA 5.5	99.98	+0.13
10 YR Treasury	4.1958	-0.0474
30 YR Treasury	4.4523	-0.0305

Pricing as of: 7/26 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.86%	-0.05	0.00
15 Yr. Fixed	6.31%	-0.02	0.00
30 Yr. FHA	6.32%	-0.06	0.00
30 Yr. Jumbo	7.04%	-0.03	0.00
5/1 ARM	6.53%	-0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.78%	-0.08	0.00
15 Yr. Fixed	6.07%	-0.09	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/26

On a final note, another class of trader is also potentially concerned (and trading accordingly) about the changes in MBS Index values. Traders have to match their holdings to that index by the end of any given month. We're a long way from the end of the month, but traders definitely don't wait that long to make the requisite trades (even though there can be extra activity at the deadline).

Bottom line: epic supply glut in MBS compounded by Treasury auction concessions compounded (possibly) by money manager trading in response to changes in MBS indices. Much more than half the move has already been erased.

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