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The Day Ahead: Treasuries Outperforming, But MBS Holding Steady

The recent trading range has been reinforced after a strong show of support in this week's Treasury auctions. Treasuries were under more pressure heading into that process and are breathing a bigger sigh of relief coming out of it. In visual terms, this can be seen as a **ceiling bounce** around .735 and now in a break below the recent uptrend in yields.

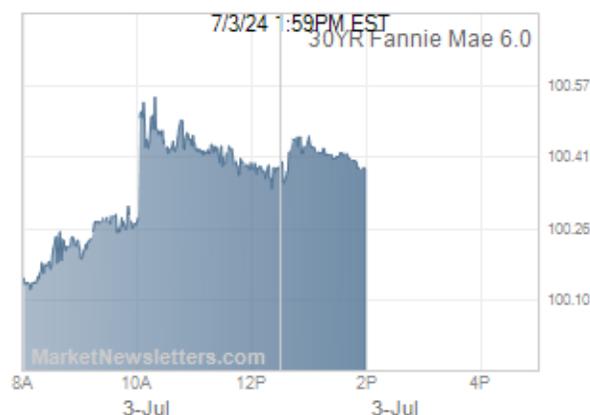


MBS are **not unhappy**, however, and neither are rate sheets. It's reassuring to see MBS spreads continue to operate in this narrow range even as the Fed has reduced its daily buying to \$5bln (blue line is the gap between MBS yield and 10yr Treasury yield).

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.39	+0.19
MBS GNMA 6.0	100.53	+0.14
10 YR Treasury	4.3602	-0.0724
30 YR Treasury	4.5297	-0.0761

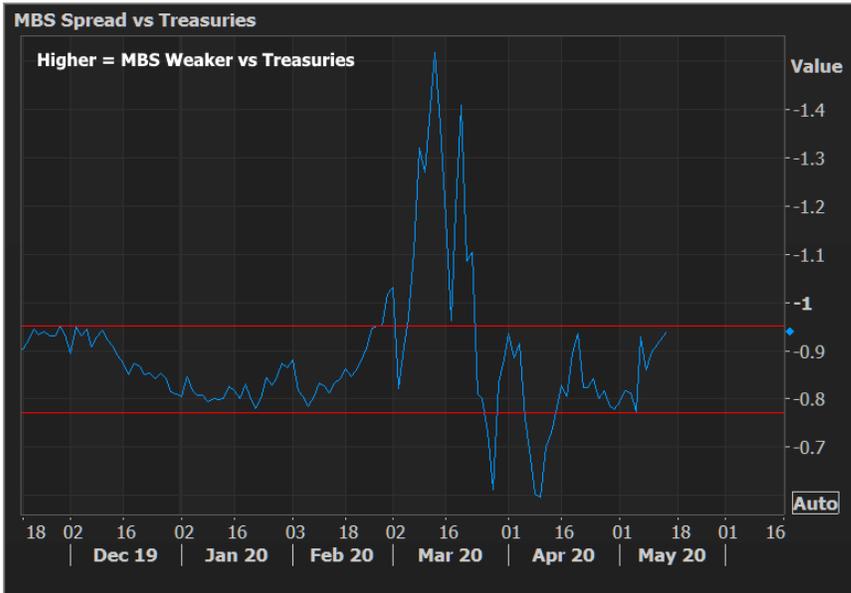
Pricing as of: 7/3 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.08%	-0.05	0.00
15 Yr. Fixed	6.45%	-0.02	0.00
30 Yr. FHA	6.55%	-0.05	0.00
30 Yr. Jumbo	7.25%	-0.04	0.00
5/1 ARM	7.07%	-0.03	0.00
Freddie Mac			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.03%	+0.09	0.62
15 Yr. Fixed	6.56%	+0.09	0.54
30 Yr. FHA	6.90%	+0.11	0.95
30 Yr. Jumbo	7.11%	-0.01	0.50
5/1 ARM	6.38%	+0.11	0.54

Rates as of: 7/3



MBS spreads don't even tell the whole story due to the balance between **2.5 and 2.0 coupons** in terms of new loan production. The calculation that feeds the blue line above has to give 2.5 coupons more weight, but 2.0 coupon pricing is doing more to inform the lower rate range. 2.0s are definitely outperforming 2.5s.

30YR UMBS 2.5 ▼ 103-18 (+0-03)

PREV: 103-15 | OPEN: 103-17 | LOW: 103-16 | HIGH: 103-18



30YR UMBS 2.0 ▼ 102-01 (+0-05)

PREV: 101-28 | OPEN: 101-29 | LOW: 101-29 | HIGH: 101-31



There are no significant market movers on the calendar today. Bonds will see how they feel about holding solid overnight gains. At least some of the strength is dependent on weakness in equities. As such, it's no surprise to see stocks moving deeper into the **lowest levels of the week**. If they manage to bounce before taking out the lows from early May, bonds stand a good chance to bounce as well.

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