Chris Munson
SVP and Managing Director US Sales and Operations, The Moneyhouse
NMLS #169716
8751 Commodity Circl Ste 17 Orlando, FL 32819

Office: 407-255-2047
Mobile: 704-957-5053
cmunson@moneyhouseus.com

ALERT: Big Drop in MBS Just Now; Oranges and Scurvy

(The MBS-specific explanation is at the bottom. Everything else is the context leading up to it.)

Yesterday, we discussed a new intermediate pivot point (an important level in between 2 more important levels) around 2.25% in 10yr yields. This level continued to assert its relevance overnight and again this morning, as it remained completely unbroken and now looks to be the jumping-off point for some selling pressure.

In the past half hour, yields have risen from 2.25 to session highs of 2.27%. Granted, that's not intense movement, by any means, but it's the most we've seen all day.

Low volume and light liquidity are certainly playing meaningful roles here. Read this primer if you need/want to brush up on why low liquidity can grease the skids for market movement. If you're not the link-clicking type, an extreme example of illiquidity would be a market with only one buyer and seller, and where only one of those 2 is highly motivated to trade. The less motivated party could push the price as far as they like in their own favor (e.g. I'm the only one in town with oranges for sale, and you have scurvy).

The liquidity story only really accounts for the relative PACE of a movement, but doesn't explain the move itself. For that, we'd turn to the technical resistance at 2.25%+, algorithmic trading programs, and relatively big corporate bond announcement that hit around the time the selling began.

It goes something like this:

- sleepy sideways markets and the 2.25% floor (yesterday and overnight) prompt traders to set up algorithms to sell bonds at the first sign of a move higher

- a corporate bond deal is announced, and while expected, the size is slightly larger than expected.

- Corporate bond deals connote net selling pressure in Treasuries (here's why)

- The net selling pressure has a bigger effect than it otherwise would due to illiquidity and light volumes

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.82	+0.01
10 YR Treasury	4.9063	-0.0236
30 YR Treasury	5.2730	-0.0352

Pricing as of: 11/2 8:50AM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00
Freddie Mac			
30YR Fixed	7.24%	+1.03	0.00
15YR Fixed	6.60%	+1.13	0.00
Mortgage Bankers Assoc.			
30YR Fixed	7.37%	+0.25	0.76
15YR Fixed	6.70%	+0.27	0.85
30YR FHA	7.12%	+0.34	1.07
30YR Jumbo	7.28%	+0.13	0.64
7/6 SOFR	6.41%	+0.31	1.20

Rates as of: 10/30

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- The end

SPECIFICALLY REGARDING MBS:

Fannie 3.5s are only down to 103-05 in liquid terms, but illiquidity has resulted in the highest bid price being 103-02 just now. It's likely that buyers will come up to meet sellers closer to their 103-06 asking prices--at least 103-04 or 103-05.



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