

## Passthrough Relative Value and Commentary

9/7/94

- Summer doldrums in the passthrough market have resulted in **opportunities in inter-sector spreads**. We believe that this is a result of market focus on intra-sector coupon price spreads, which trade to their historical relationships.
- These discrepancies are primarily observable in **historical price spread data**.
- **Discount GNMA's have underperformed recently**, as the market has increased its awareness of the GNMA assumability option. This over-reaction ignores fundamental GNMA prepayment behavior (in general, while GNMA's are slower than conventionals with equivalent coupons, they are faster than conventionals with a 50 bps lower coupon), leaving GNMA's cheap to conventionals, on a carry and total return basis.
- **The flattening of the yield curve has also hurt 15-year passthroughs**. Among the premiums, this has cheapened 15-years versus comparable duration premium 30-year passthroughs.
- **Premium 30-year passthroughs have also richened recently**, as the market has begun betting on further slowdowns in prepayments.
- **We therefore recommend the following trades:**

	Buy MBS	Sell MBS	Buy/Sell Ratio	Weighted Spread	Spread Objective	Spread Change	Comments
1	GN30 7.5	FN30 6.0	0.95	3.02	3.41 <i>3.5</i>	+0.39 <i>+ .48</i>	GNMA 7.5s prepaid at 5.22 CPR last month; FNMA 6s prepaid at 2.08 CPR. Both are at discounts!
2	GN30 6.5	GN15 6.0	0.78	-22.37	-22.14 <i>- 21.5</i>	+0.23 <i>+ .87</i>	Further curve flattening could make it worse.
3	GN30 7.5	FN30 7.0	0.95	-2.76	-2.50 <i>- 2.34</i>	+0.26 <i>+ .42</i>	Unwind when GN 7.5 reaches 102. GNMA prepays work in favor of this trade.
4	GN 15 8.0	FN15 7.5	1.10	12.17	12.45 <i>12.53</i>	+0.28 <i>+ .36</i>	Great convexity pickup, too.
5	FN15 8.5	FN30 9.0	1.40	39.97	40.27 <i>40.92</i>	+0.30 <i>+ .45</i>	This trade has been cheapening over the past few days, as FN 9s richen on burnout betting.
6	FN15 8.0	FN30 8.5	1.30	29.75	30.00 <i>30.66</i>	+0.25	Very stable spread and hedge ratio - high Z-score.
7	FN15 8.0	FN30 9.0	1.00	-2.62	-2.39	+0.23	Ditto.
8	FN15 8.5	FN30 8.5	1.80	83.08	83.40	+0.32	Big duration difference, but relatively stable spread.
9	FN 15 8.0	GN30 9.0	1.00	-2.75	-2.55	+0.20	GN 9s continue to remain rich.
10	FN15 8.0	FN7B 7.0	1.35	37.05	37.37	+0.32	Pick up some convexity, too.

**Samir Shah, 212-667-2060**

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*15 yr cheapened in Dec.*

# MBS Passthrough Trade Idea 1

9/7/94

Buy: GN30 7.5 @ 95.88  
 Sell: FN30 6.0 @ 88.06  
 Buy: Sell Ratio 0.95 : 1.00

## Data from 1/1/94

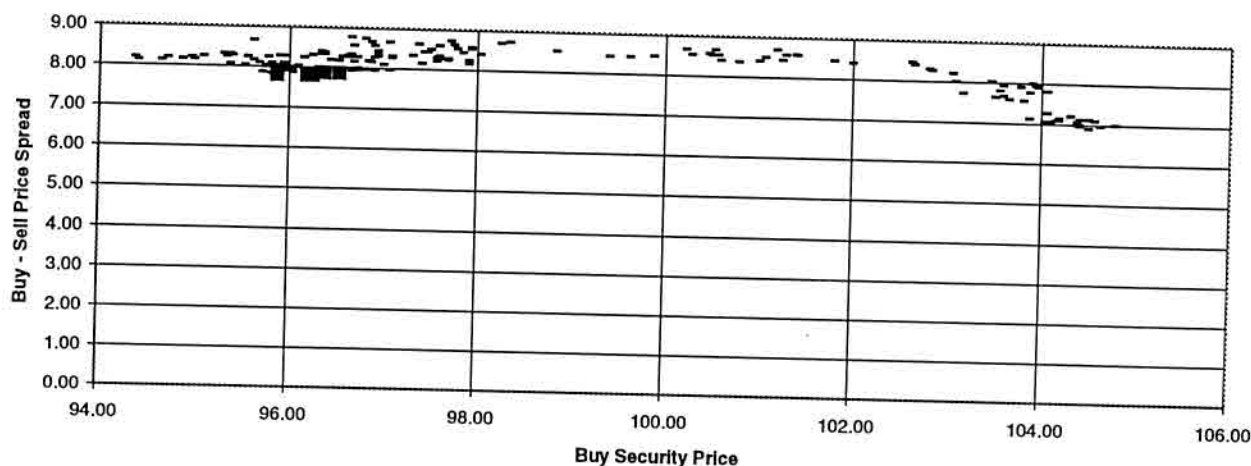
	Unweighted	Weighted
Current	7.81	3.02
Min	6.91	1.68
Max	8.78	3.95
Average	8.09	3.16
St Dev	0.45	0.55
Z-Score	-0.63	-0.26

## Data from 3/1/94

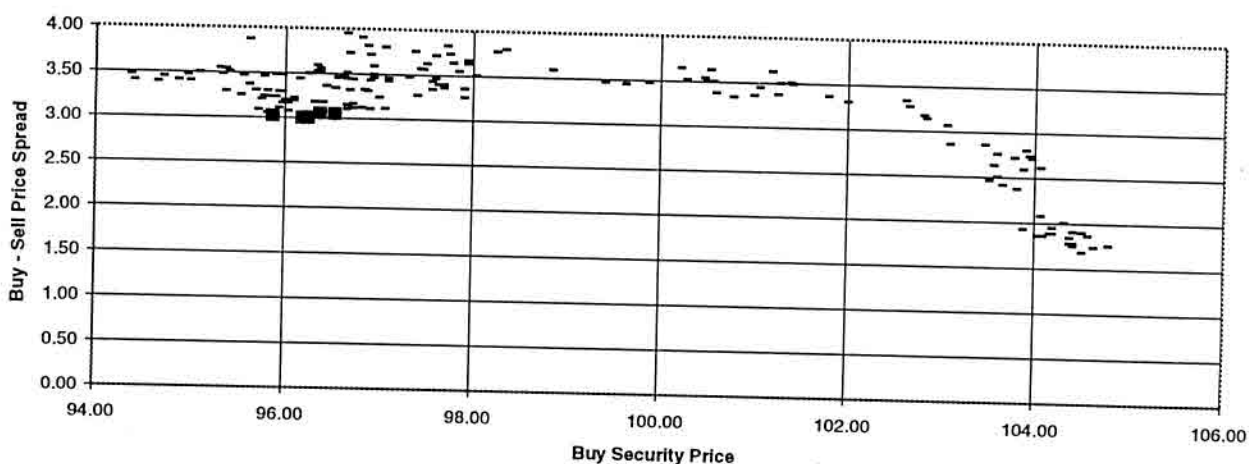
	Unweighted	Weighted
Current	7.81	3.02
Min	7.81	3.00
Max	8.78	3.95
Average	8.26	3.41
St Dev	0.25	0.21
Z-Score	-1.81	-1.83

Data as of 9/6/94

Unweighted Price Spread



Weighted Price Spread



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## MBS Passthrough Trade Idea 2

9/7/94

Buy: GN30 6.5 @ 89.34  
 Sell: GN15 6.0 @ 92.06  
 Buy: Sell Ratio 0.78 : 1.00

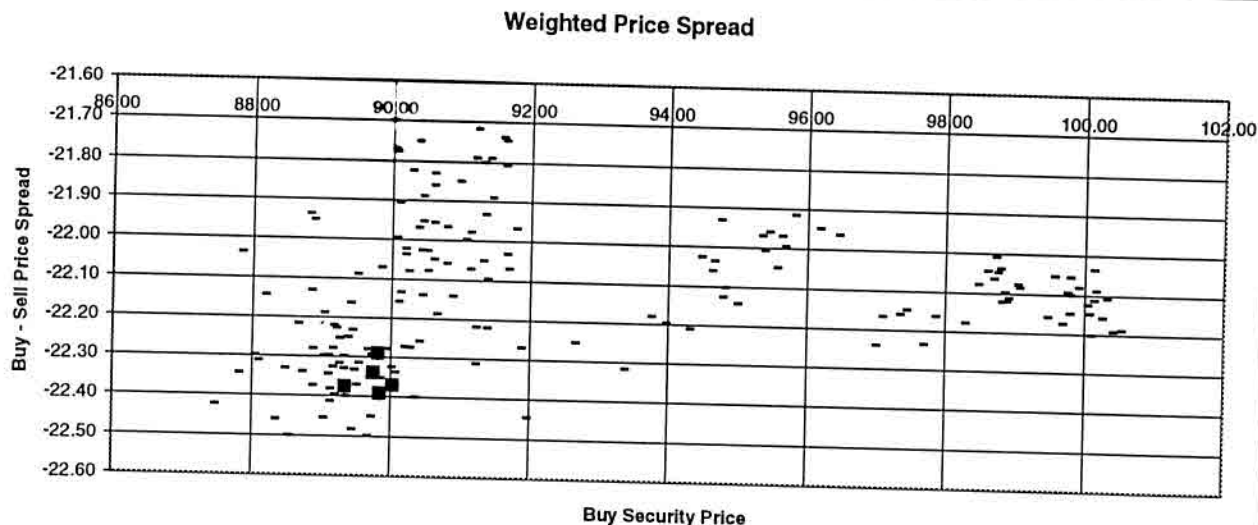
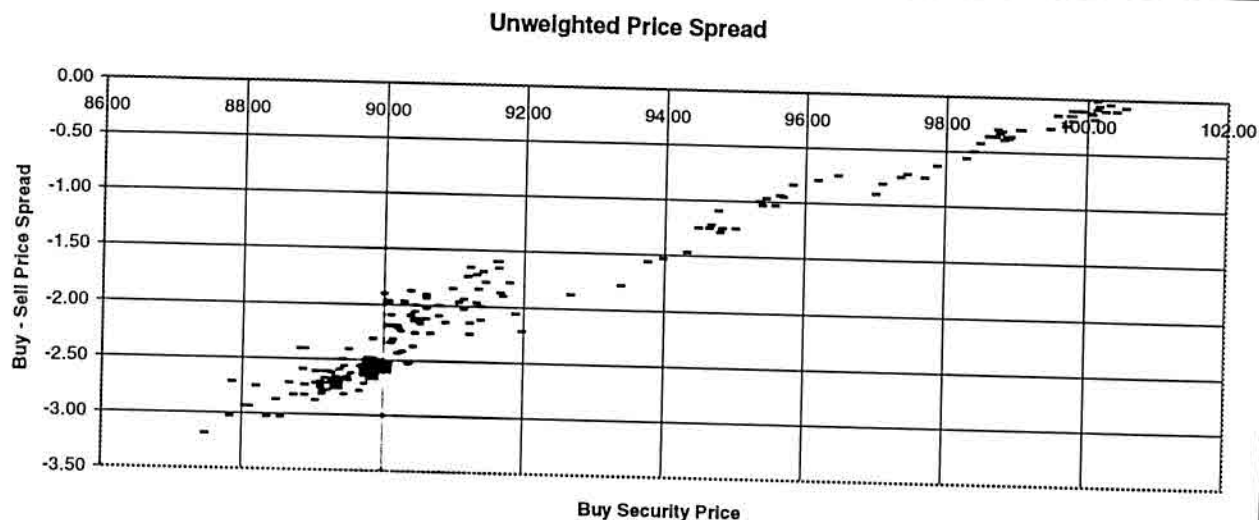
### Data from 1/1/94

	Unweighted	Weighted
Current	-2.72	-22.37
Min	-3.19	-22.50
Max	-0.02	-21.70
Average	-1.75	-22.14
St Dev	0.94	0.18
Z-Score	-1.03	-1.32

### Data from 3/1/94

	Unweighted	Weighted
Current	-2.72	-22.37
Min	-3.19	-22.50
Max	-0.75	-21.70
Average	-2.18	-22.14
St Dev	0.57	0.20
Z-Score	-0.94	-1.15

Data as of 9/6/94



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# MBS Passthrough Trade Idea 3

9/7/94

Buy: GN30 7.5 @ 95.88  
 Sell: FN30 7.0 @ 93.84  
 Buy: Sell Ratio 0.95 : 1.00

## Data from 1/1/94

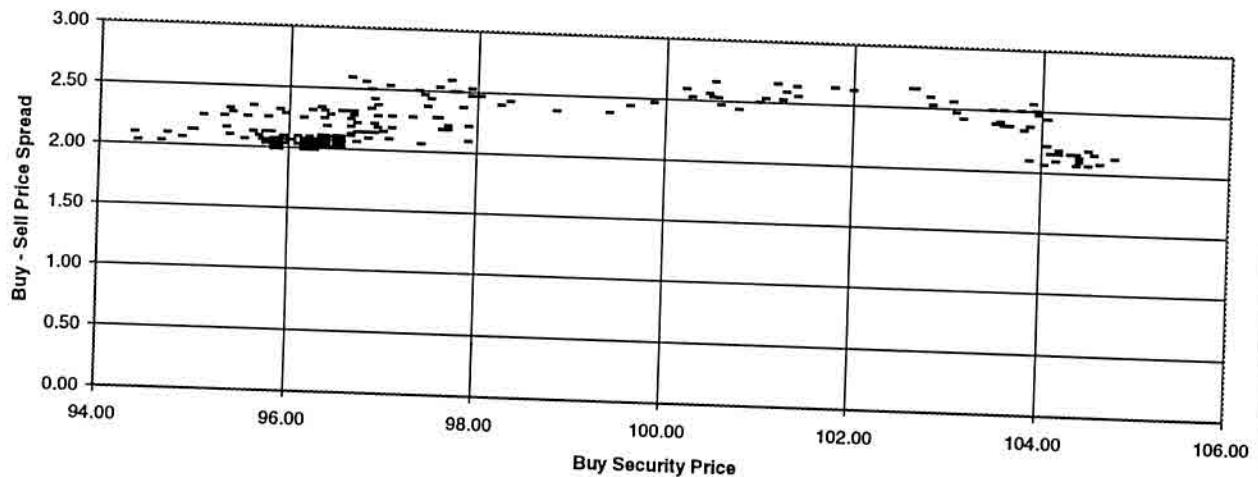
	Unweighted	Weighted
Current	2.03	-2.76
Min	2.03	-3.16
Max	2.66	-2.24
Average	2.28	-2.65
St Dev	0.19	0.20
Z-Score	-1.31	-0.54

## Data from 3/1/94

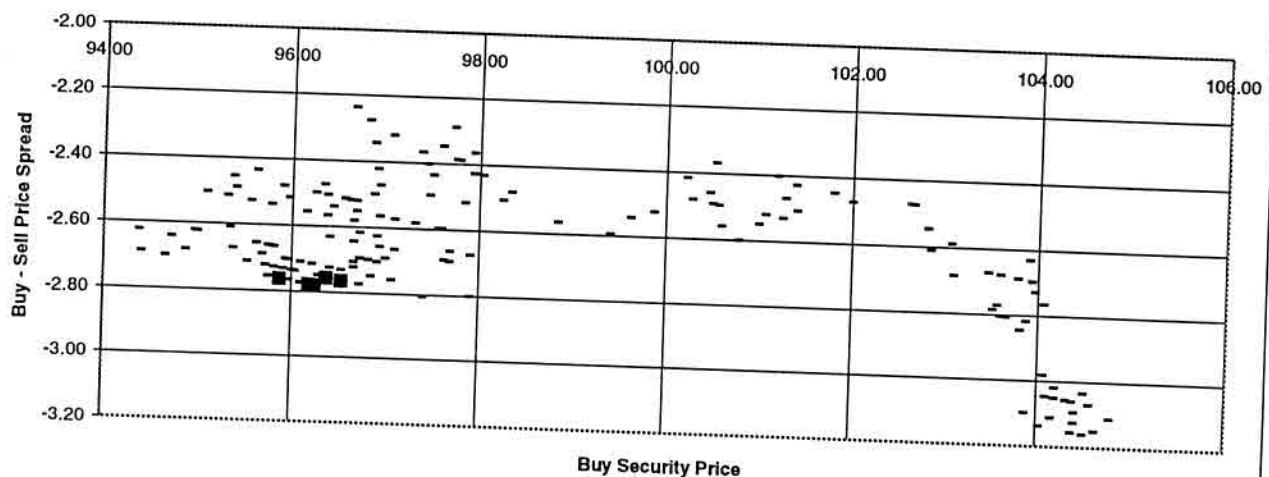
	Unweighted	Weighted
Current	2.03	-2.76
Min	2.03	-2.81
Max	2.66	-2.24
Average	2.27	-2.59
St Dev	0.19	0.13
Z-Score	-1.28	-1.33

Data as of 9/6/94

## Unweighted Price Spread



## Weighted Price Spread



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# MBS Passthrough Trade Idea 4

9/7/94

Buy: GN15 8.0 @ 101.03  
 Sell: FN15 7.5 @ 98.97  
 Buy: Sell Ratio 1.10 : 1.00

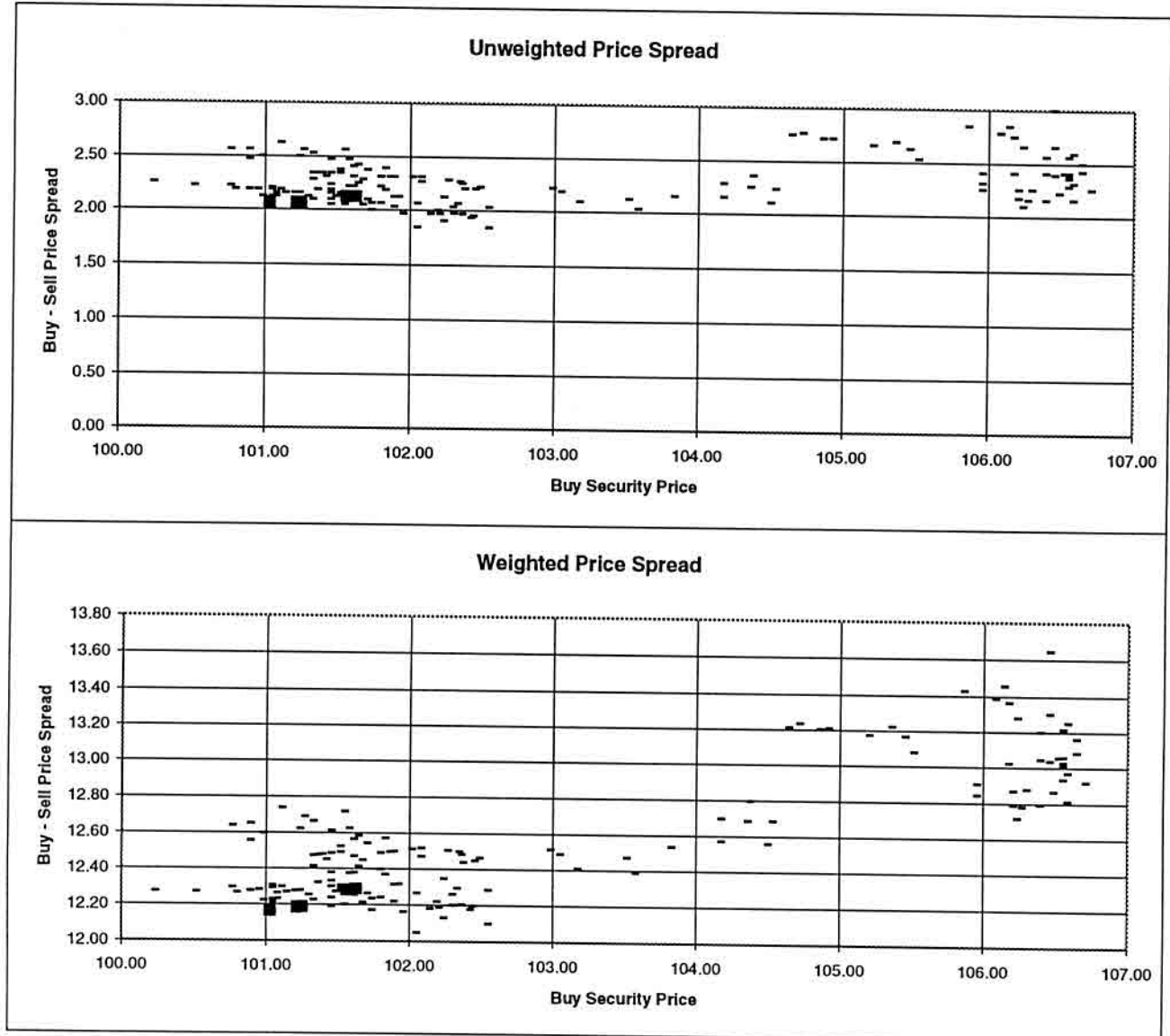
## Data from 1/1/94

	Unweighted	Weighted
Current	2.06	12.17
Min	1.84	12.05
Max	3.00	13.64
Average	2.28	12.59
St Dev	0.22	0.37
Z-Score	-0.99	-1.15

## Data from 3/1/94

	Unweighted	Weighted
Current	2.06	12.17
Min	1.84	12.05
Max	2.84	13.43
Average	2.24	12.45
St Dev	0.21	0.28
Z-Score	-0.87	-1.01

Data as of 9/6/94



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# MBS Passthrough Trade Idea 5

9/7/94

Buy: FN15 8.5 @ 102.34  
 Sell: FN30 9.0 @ 103.31  
 Buy: Sell Ratio 1.40 : 1.00

## Data from 1/1/94

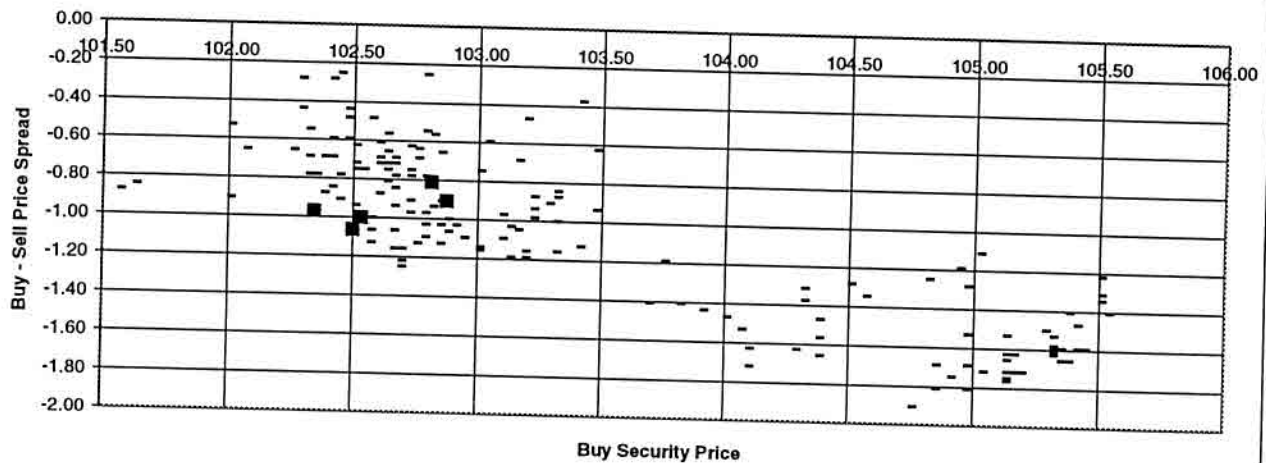
	Unweighted	Weighted
Current	-0.97	39.97
Min	-1.91	39.75
Max	-0.25	40.99
Average	-1.09	40.32
St Dev	0.41	0.25
Z-Score	0.29	-1.41

## Data from 3/1/94

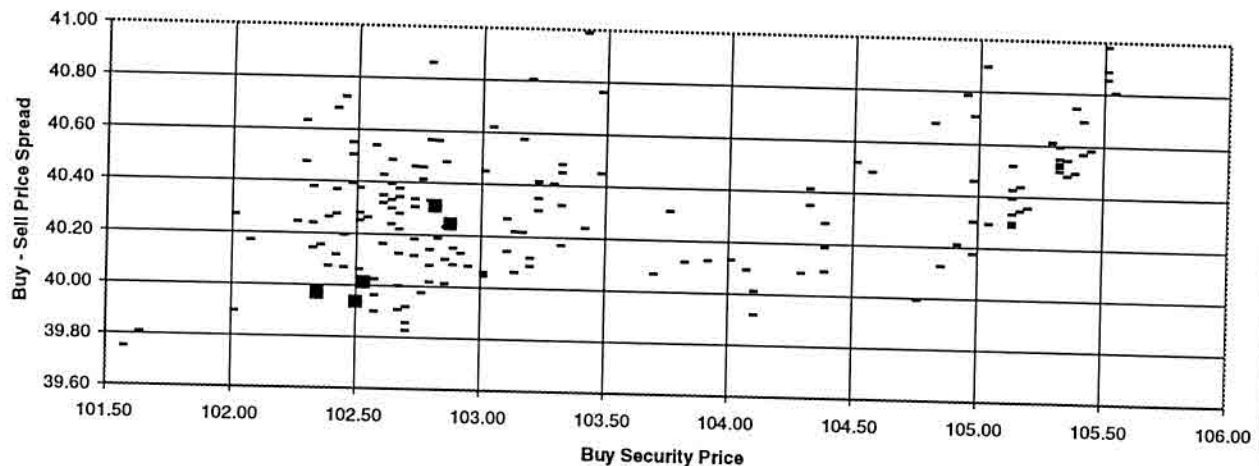
	Unweighted	Weighted
Current	-0.97	39.97
Min	-1.81	39.75
Max	-0.25	40.99
Average	-0.93	40.27
St Dev	0.33	0.24
Z-Score	-0.11	-1.26

Data as of 9/6/94

## Unweighted Price Spread



## Weighted Price Spread



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# MBS Passthrough Trade Idea 6

9/7/94

Buy: FN15 8.0 @ 100.69  
 Sell: FN30 8.5 @ 101.14  
 Buy: Sell Ratio 1.30 : 1.00

## Data from 1/1/94

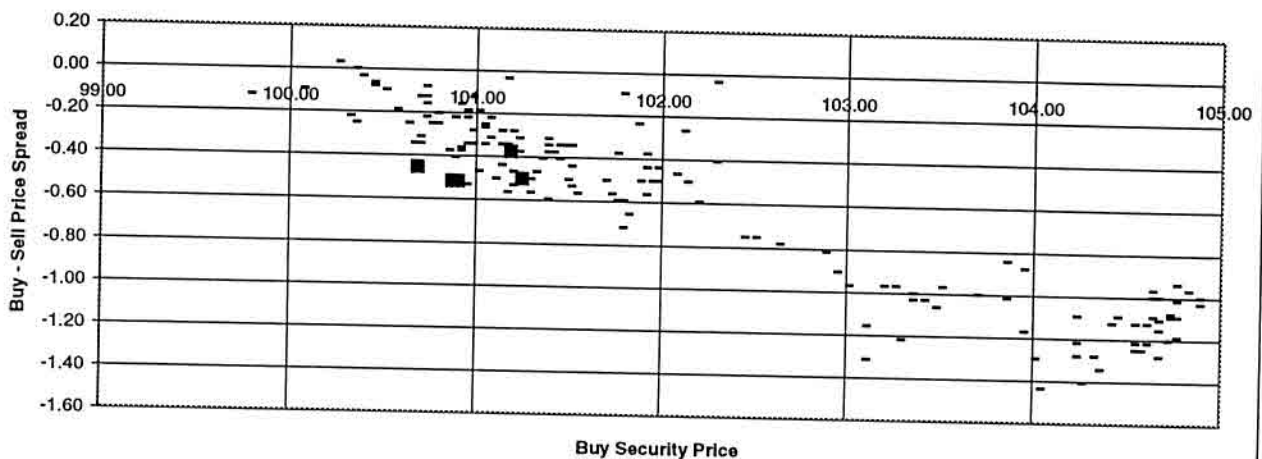
	Unweighted	Weighted
Current	-0.45	29.75
Min	-1.44	29.62
Max	0.03	30.65
Average	-0.61	30.06
St Dev	0.39	0.18
Z-Score	0.41	-1.68

## Data from 3/1/94

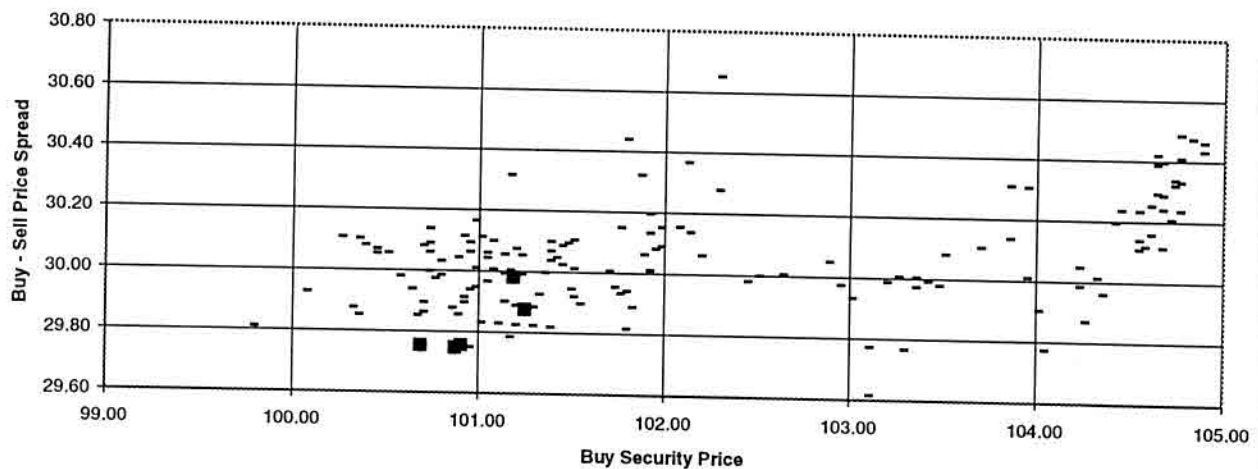
	Unweighted	Weighted
Current	-0.45	29.75
Min	-1.44	29.62
Max	0.03	30.65
Average	-0.46	30.00
St Dev	0.30	0.15
Z-Score	0.03	-1.68

Data as of 9/6/94

## Unweighted Price Spread



## Weighted Price Spread



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# MBS Passthrough Trade Idea 7

9/7/94

Buy: FN15 8.0 @ 100.69  
 Sell: FN30 9.0 @ 103.31  
 Buy: Sell Ratio 1.00 : 1.00

## Data from 1/1/94

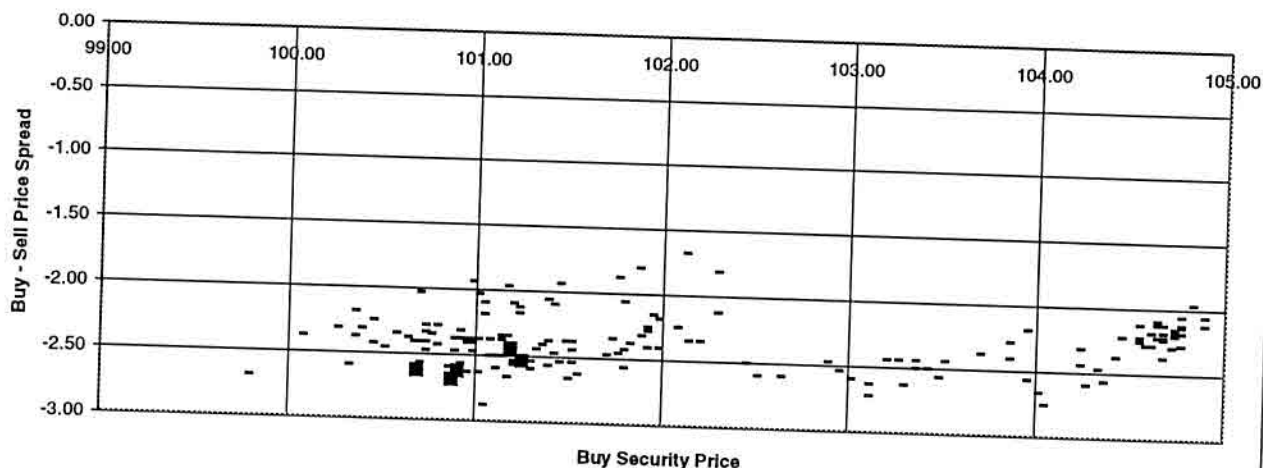
	Unweighted	Weighted
Current	-2.62	-2.62
Min	-2.88	-2.88
Max	-1.67	-1.67
Average	-2.35	-2.35
St Dev	0.20	0.20
Z-Score	-1.32	-1.32

## Data from 3/1/94

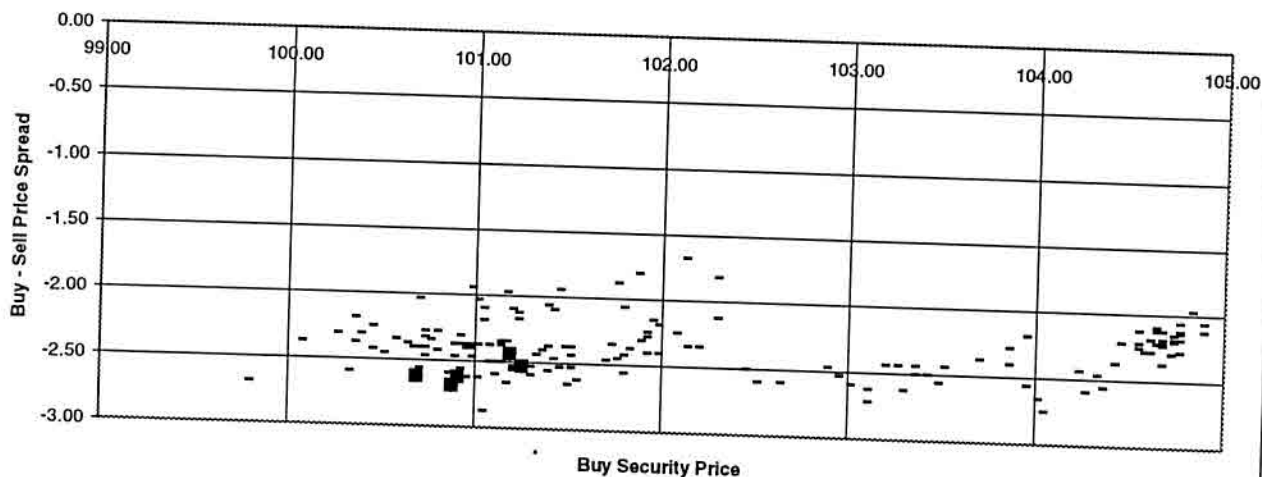
	Unweighted	Weighted
Current	-2.62	-2.62
Min	-2.88	-2.88
Max	-1.67	-1.67
Average	-2.39	-2.39
St Dev	0.21	0.21
Z-Score	-1.13	-1.13

Data as of 9/6/94

## Unweighted Price Spread



## Weighted Price Spread



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# MBS Passthrough Trade Idea 8

9/7/94

Buy: FN15 8.5 @ 102.34  
 Sell: FN30 8.5 @ 101.14  
 Buy: Sell Ratio 1.80 : 1.00

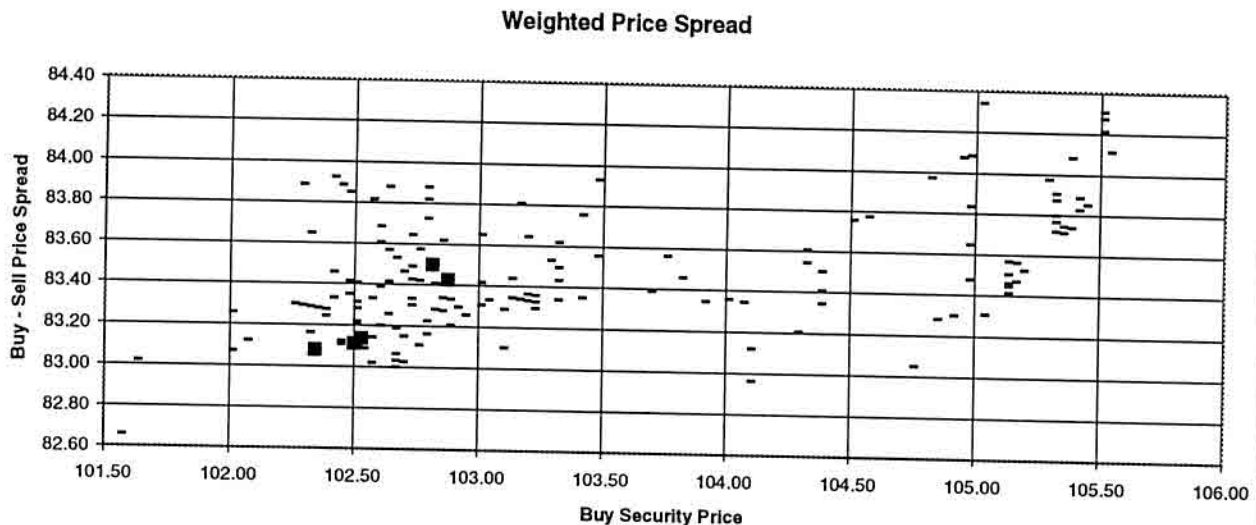
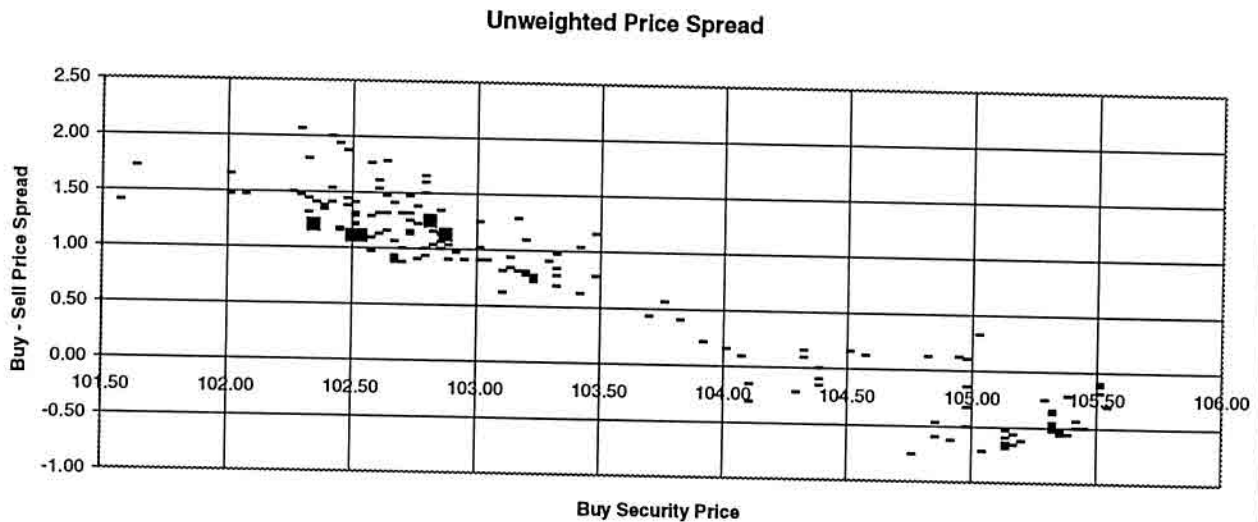
## Data from 1/1/94

	Unweighted	Weighted
Current	1.20	83.08
Min	-0.75	82.66
Max	2.06	84.34
Average	0.65	83.46
St Dev	0.79	0.29
Z-Score	0.70	-1.30

## Data from 3/1/94

	Unweighted	Weighted
Current	1.20	83.08
Min	-0.50	82.66
Max	2.06	84.34
Average	1.00	83.40
St Dev	0.53	0.27
Z-Score	0.39	-1.21

Data as of 9/6/94



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# MBS Passthrough Trade Idea 9

9/7/94

Buy: FN15 8.0 @ 100.69  
 Sell: GN30 9.0 @ 103.44  
 Buy: Sell Ratio 1.00 : 1.00

## Data from 1/1/94

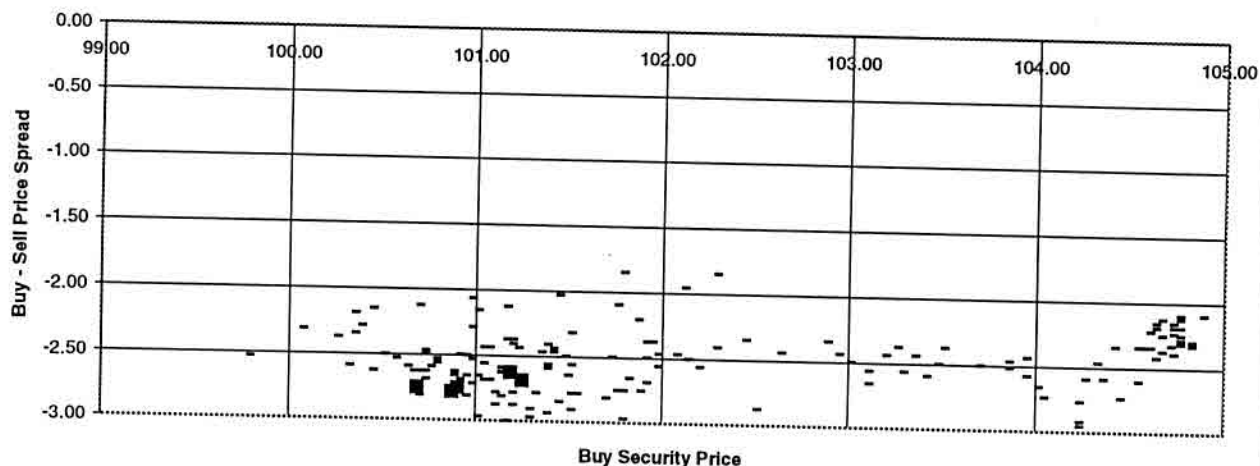
	Unweighted	Weighted
Current	-2.75	-2.75
Min	-3.00	-3.00
Max	-1.84	-1.84
Average	-2.50	-2.50
St Dev	0.24	0.24
Z-Score	-1.03	-1.03

## Data from 3/1/94

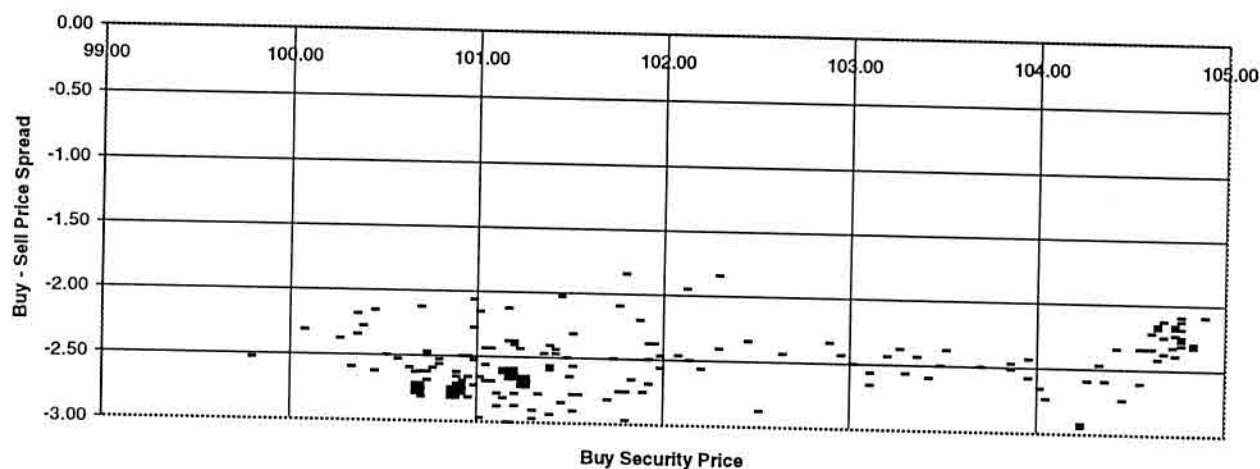
	Unweighted	Weighted
Current	-2.75	-2.75
Min	-3.00	-3.00
Max	-1.84	-1.84
Average	-2.55	-2.55
St Dev	0.23	0.23
Z-Score	-0.88	-0.88

Data as of 9/6/94

## Unweighted Price Spread



## Weighted Price Spread



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## MBS Passthrough Trade Idea 10

9/7/94

Buy: FN15 8.0 @ 100.69  
 Sell: FN7B 7.0 @ 98.88  
 Buy: Sell Ratio 1.35 : 1.00

### Data from 1/1/94

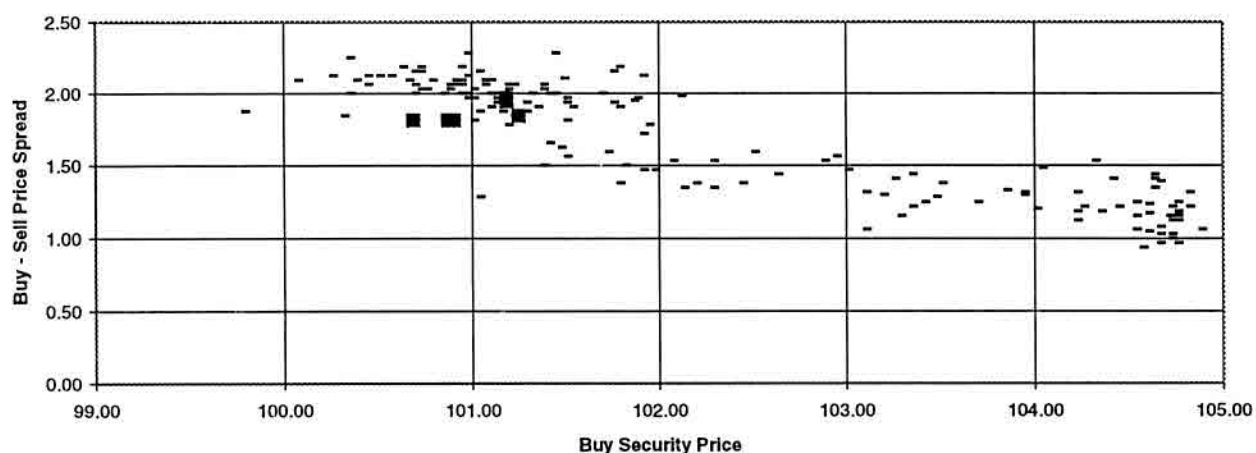
	Unweighted	Weighted
Current	1.81	37.05
Min	0.94	36.64
Max	2.28	38.06
Average	1.68	37.47
St Dev	0.39	0.26
Z-Score	0.35	-1.59

### Data from 3/1/94

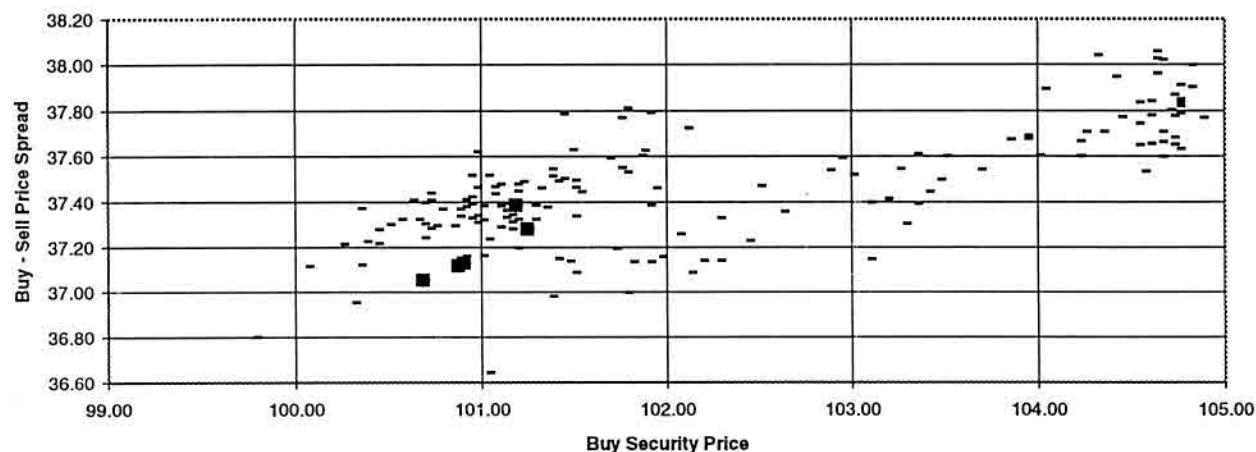
	Unweighted	Weighted
Current	1.81	37.05
Min	1.06	36.64
Max	2.28	37.90
Average	1.83	37.37
St Dev	0.31	0.20
Z-Score	-0.05	-1.57

Data as of 9/6/94

**Unweighted Price Spread**



**Weighted Price Spread**



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