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The Day Ahead: Data-Free Day Leaves Markets to Find Their Own Way

- No econ data on tap apart from Consumer Sentiment
- Oil surging, how much does it matter?
- Bonds trying to confirm technical bounce, but not quite there yet

After a rollicking week of data, events, and market movement, bond markets hit a bit of an information void today, and will be forced to find their own path. In so doing, they'll have to rely on related markets and tradeflow landmines laid along technical paths.

What the hell does that nonsense even mean? Let's break it down:

Related markets. This simply refers to the usual interdependent relationships that bonds have with things like oil and stocks. In examining those relationships, it's good to keep in mind that they are far from perfect. Sometimes they are connected in the short-to-medium term. Other times, it takes an extreme amount of movement in one market to get the attention of the other.

Tradeflow Landmines. This refers to the trading positions held by various bond market participants. For instance, let's say a speculative trader bought 10yr notes when the yield held below 1.92% yesterday. They are "long." Let's say 1.92% is where they will "cover" their position if bonds lose ground. In other words, if yields rise to 1.92% (or some level close to that, based on their individual strategy and/or algorithms), they will sell 10yr notes in order to close/cover their position. When they sell, it will raise yields further, potentially triggering the next trader's stop-loss level, much like stepping on a landmine.

Technical paths. This ties in with the tradeflow landmines. 1.92% in the example above would be one such guidepost along the technical path. There are always many different technical lenses through which traders are viewing market movement. At the moment, 10yr yields are attempting to confirm a positive shift in several of those technical studies. A few of the most popular/common ones appear in the chart below. The yellow lines are Bollinger Bands, where the central band is the 21-day exponential moving average.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.12	+0.35
MBS GNMA 6.0	101.08	+0.35
10 YR Treasury	4.5031	-0.0764
30 YR Treasury	4.6650	-0.0640

Pricing as of: 5/3 2:42PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.28%	-0.09	0.00
15 Yr. Fixed	6.75%	-0.07	0.00
30 Yr. FHA	6.70%	-0.12	0.00
30 Yr. Jumbo	7.48%	-0.07	0.00
5/1 ARM	7.35%	-0.07	0.00
Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 5/3

The yellow lines are Bollinger Bands, where the central band is the 21-day exponential moving average. I'm not a huge fan of moving averages as predictive in and of themselves. They're more useful when they're being broken in conjunction with other technical signals. In the current case, if 10yr yields could also make it down below 1.85-ish, it would add validity to the break of the bollinger band. It would also confirm a 'stochastic cross,' which you can see setting itself up as the potential break of the blue line below the red line. Here again, a stochastic cross in and of itself doesn't necessarily mean bonds will follow through, but if it's occurring in concert with several other technical indicators, chances improve.

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