Rich E. Blanchard

Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
Fax: 214.975.2874
richblanchard@richhomeloans.com
View My Website

UPDATE: What's Up With The Mega Rally?

- 10yr yields now down 6.7 bps on the day and Fannie 3.0s up 10 ticks
- Several factors in play including oil, stocks, Europe, and corporate issuance

Bond markets are having a rather awesome day and yet again, we don't have much by way of gigantic, obvious motivations. So let's start going down the list and see what we find.

Oil. Yes, oil has been doing quite well of late and just today began to slip lower after apparently running into a bit of a ceiling yesterday. If oil is central to the inflationary theme that's been problematic for rates, it's no surprise to see "resistance" to further progress in oil come to the aid of bond markets. All that having been said, this move in oil isn't enough to cause what we're seeing.

Stocks. The theme here is very much in line with oil (and stock prices themselves have been tracking quite well with oil prices). With stocks though, the "resistance" narrative is even more prominent. S&P futures have been incessantly banging their head against a recent ceiling, and it just so happens that failing to break that ceiling would keep the long-term, parabolic downtrend intact. That's a big deal for stocks. Bond markets know they'll get some love if that parabolic trend plays out. In my view, this is one of the bigger motivations at the moment.

Europe. There's also no question that European markets are exerting an influence here on this holiday-shortened, lighter volume week. Earlier today when Treasuries weren't following stocks and oil, it was because Europe was pulling in the other direction. Once Europe began its nosedive at 11:15am, bonds followed suit.

Corporate issuance. This is a bigger deal than you might expect. Yesterday saw a lot of new deals come to market and it looks like several issuers sold Treasuries to hedge their rate locks. Today, there's no issuance, meaning there's less supply pressure in bond markets in general. There's also the possibility that some of the issuers are/were buying back the Treasuries they sold short yesterday (unwinding the rate-lock hedge).

Whatever the true combination of motivators here, bond markets are set to close below the important 1.92% tehcnical level, and by a wide margin. That's a positive development from a technical standpoint as it constitutes a "rejections" of the "test" seen yesterday. For more on those terms, see the

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.78	+0.32
MBS GNMA 6.0	100.74	+0.26
10 YR Treasury	4.5795	0.0000
30 YR Treasury	4.7290	0.0000

Pricing as of: 5/2 10:25PM EST

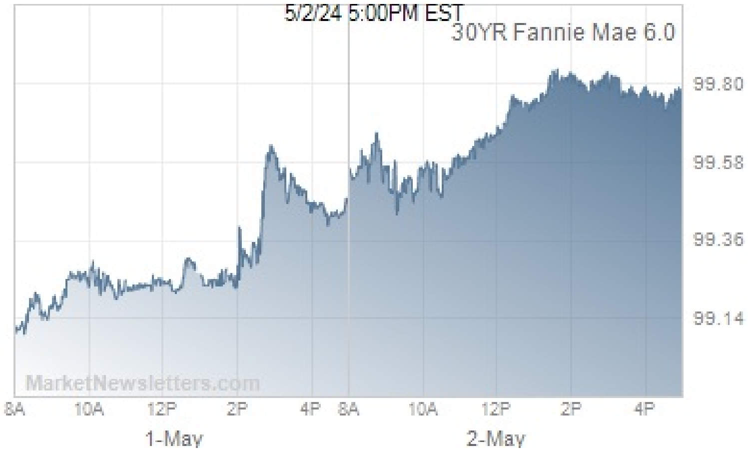
Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.37%	-0.04	0.00
15 Yr. Fixed	6.82%	-0.02	0.00
30 Yr. FHA	6.82%	-0.06	0.00
30 Yr. Jumbo	7.55%	-0.05	0.00
5/1 ARM	7.42%	-0.08	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: 5/2

Technical Analysis Crash Course in the HELP menu.

If we want to be less dramatic about all of this, we could overlook the past 3 days of somewhat elevated intraday volatility on a holiday week and consider we're closing at the same levels as last Friday.



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