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The Day Ahead: Defensive Technical Ceilings Await The Attack

- Yellen rally set off positive technicals
- "Technicals" refers to mathematical interpretation of market movement based only on the previous market movement (i.e. ignoring data and external events)
- Today's data is a non-event, thus leaving focus on technicals
- Watch 1.85 and 1.88 in 10yr yields for defensive ceilings. They might be attacked, but if they hold, that's good.

Yesterday's Yellen-induced bond market rally did some nice things for most of the mainstream technical analysis (drawing conclusions and making predictions about market movement based solely on the market movement itself, as opposed to external events).

There are too many different technical studies for most anyone to want to digest on a regular basis when watching one of their most important securities, but fortunately there are a few studies that are considered **nearly ubiquitous**, and they usually send the same messages.

This was the case with the popular **Bollinger Bands** (BBands for short) and stochastics until yesterday. As you can see in the chart below, Treasury yields had been hanging out just above the middle BBand and at the same time had been avoiding a strong "cross" in stochastics (when the faster moving line breaks through the slower moving line, it's a signal that momentum may be shifting in that direction).

Yellen's rally set-off **clear** signals in both these techs, with a big break below the middle BBand and opening a noticeable gap in stochastics--both good things.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.41	-0.14
MBS GNMA 6.0	100.72	-0.02
10 YR Treasury	4.4169	+0.0400
30 YR Treasury	4.5558	+0.0497

Pricing as of: 5/17 12:57PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.02%	+0.03	0.00
15 Yr. Fixed	6.53%	+0.03	0.00
30 Yr. FHA	6.55%	+0.03	0.00
30 Yr. Jumbo	7.31%	+0.01	0.00
5/1 ARM	7.24%	+0.04	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.08%	-0.10	0.63
15 Yr. Fixed	6.61%	+0.01	0.65
30 Yr. FHA	6.89%	-0.03	0.94
30 Yr. Jumbo	7.22%	-0.09	0.58
5/1 ARM	6.56%	-0.04	0.66

Rates as of: 5/16



With this morning's only relevant data--ADP Employment--coming in at 200k vs a 194k forecast (but offset by a 9k drop in the previous report), **bond markets will be more focused** on trading the technical boundaries suggested by yesterday's breakout. On that larger time scale, you may be able to see 1.88%-ish as a defensive overhead ceiling (middle BBand), but we also had a nice intraday pivot at 1.85 yesterday. As such, those would be the first two places I'd look for "defense" if we happen to continue losing ground.

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