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The Day Ahead: Bonds May Lose Ground, And That's OK

- Light data day in the springtime: trading may be more about housekeeping than making any new bets on big-picture momentum
- Trend has been positive for bonds, suggesting "long positions" (i.e. bets on lower rates)
- Fridays typically see positions being squared (shorts cover and longs take profits)
- With Treasuries having run to key technical levels, don't sweat a bit of position squaring

Ebbs and flows... It's a relatively constant theme in life and financial markets. We've often discussed the tendency for financial markets to pull back periodically simply because they've run in one direction for a certain amount of time.

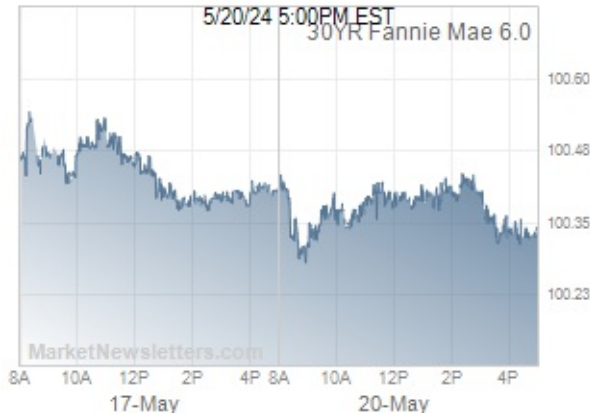
Bond market positivity has been flowing since the March 2016 Fed meeting, and is now reaching some important technical levels. In the following chart, you can see the two most important rally targets at 1.72 and 1.67. These would be considered "resistance" (1.72) and "max resistance" (1.67) (more on those terms for MBS Live members [here](#)). Yields would **need to break through both** of them before we could stamp our seal of approval on the trend continuing.



MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.35	-0.05
MBS GNMA 6.0	100.73	-0.04
10 YR Treasury	4.4458	+0.0235
30 YR Treasury	4.5840	+0.0230

Pricing as of: 5/20 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.10%	+0.01	0.00
15 Yr. Fixed	6.57%	+0.01	0.00
30 Yr. FHA	6.64%	+0.02	0.00
30 Yr. Jumbo	7.35%	0.00	0.00
5/1 ARM	7.30%	0.00	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: 5/20

While it's true that "the trend is your friend until it's not," it also makes sense to get **more defensive as rates approach known technical barriers**. Even without looking back into the more distant past to find instances where these trading levels demonstrated their importance, we can simply observe the trading behavior in February. Yields were clearly unable to close below 1.67, and then had lots of trouble breaking back below 1.72 later in the month.

Here's the **tricky part**: if bonds do have a tough day today (and it's looking that way so far), it doesn't necessarily mean the trend is over. Furthermore, it could just be a logical place to take a breather, considering yesterday's run-in with the 1.72% technical level and the fact that it's Friday.

If a majority of trading positions are "long" (betting on lower rates), then we'd naturally see a bounce heading into the weekend as traders covered those positions. We'd need to see **quite a bit of weakness** before the trends in Treasuries is threatened. German Bunds, on the other hand, are somewhat closer to the top of their trend channel.



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