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The Day Ahead: Bunds Threaten Bounce; MBS Rolled

- What's a Bund and why does it matter? (Hint: the benchmark for European bond markets)
- Bunds and Treasuries threatening to bounce to high side of range
- What is the range? (Hint: 1.72-1.80, with a 1.755 midpoint)
- Does data matter? (Hint: not today)
- How about oil? stocks? (Hint: it depends...)
- **YES, MBS ROLLED** (prices are 7/32nds weaker than they otherwise would be)

What's in a name? A Bund by any other name would be **far less hilarious** to English speakers, but it would still smell like the European bond market. As you may know if you travel in elite circles of financial market illuminati, **there are other bonds out there** besides the 10yr note in the US. But while we could constantly monitor other Treasuries like 2, 3, 5, and 7-year notes, as well as 30yr bonds, none of them even come close in terms of volume, liquidity, and relevance to the mortgage market. Indeed, even if we forget about mortgages, the 10yr still dominates as the best indication of the overall "bond market" in the US.

It's the same story for Bunds in Europe. Germany is, by far, the **largest** economic component of the EU, and Germany's 10yr Bund serves a similar representative role for the broader European bond market.

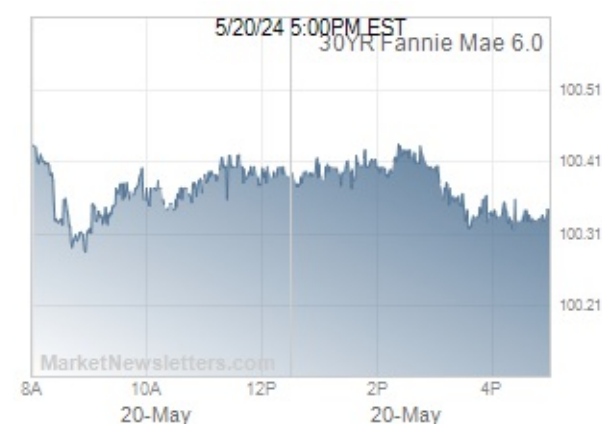
There are **multiple reasons** for these 10yr maturities to be where they are today, but most of those reasons lead back to the very basic notion of risk vs return. The decision to invest in bonds is an inherent choice to avoid risk or to bet against growth. At the very least, it's a hedge against potential economic weakness. Sure, we can say that the European Central Bank is actively buying European bonds, therefore bringing the yields even lower, but why are they buying them again? Oh right! Because of economic growth problems! It all leads back to growth and risk.

Recently, German Bunds have been operating **near all-time lows**. In a globally interconnected market, when Bund yields are as depressed as they have been, US bond markets can't help but benefit. It's worth noting that Bunds have thus far failed to break all-time lows, and that the going could get tougher for Treasuries (and thus, MBS) the more it looks like Bunds are staging a bigger-picture bounce. It's this European bond market bounce (more than stocks or oil) that is blocking Treasuries' progress through the 1.7's.

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	4.4482	+0.0024
30 YR Treasury	4.5893	+0.0053

Pricing as of: 5/21 12:02AM 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



Oil and stocks are only going to have a big effect right now if they happen to move in a **major way**. As the chart shows, oil has had a pretty big bounce of late, and bond markets haven't given much chase. 10yr yields are set to battle the mid-point of their short term range, 1.755, after setting overnight lows of 1.725.

On a final note, Fannie and Freddie 30yr fixed **MBS officially rolled** to May coupons with the start of today's trading. That makes prices look 7/32nds lower than they did yesterday, because yesterday's prices were linked to April coupons.

Remember, all things being equal, if nothing else changed in the market besides the advancement of time, today's prices would slowly tick higher by roughly 7/32nds over the next 30 days. This is time-value-of-money in action. The closer to the roll, the closer an investor is to collecting that first payment on MBS they buy. The 7/32nds you could have paid yesterday for an April coupon is the premium for receiving a payment a month earlier than buying today's May coupons.

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