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The Day Ahead: Bonds Fighting For Technical Victory, With Fundamental Caveats

- Bonds right on the edge of confirming positive shift
- We need to hold ground today in order to confirm
- Even then, we have to wonder about the "month-end" effect
- Data could have an impact, but it depends on size of beat/miss

The Fed is looking for inflation and not finding too much of it based on Wednesday's FOMC Announcement. The Fed's statement helped bond markets recover quite a bit of recent weakness as the text removed the previous reference to inflation showing signs of picking up. Markets are clearly skeptical as to whether or not the Fed can pull off its stated goal of hiking twice in 2016.

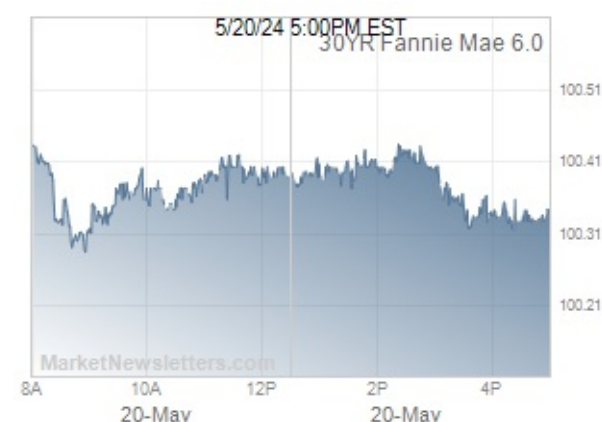
The bond rally on Wednesday, and modest extension yesterday, brought yields right to a critical crossroads in terms trading levels and technical indicators. 10yr yields are right on the upper edge of the PREVIOUS trading range that topped out at 1.84%, or at least they WERE right on the edge until the overnight session (we've lost 4bps before starting the day).

So if bonds can rally, it will be helping confirm the technical shifts in the following chart:

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	4.4355	-0.0103
30 YR Treasury	4.5782	-0.0058

Pricing as of: 5/21 3:40AM 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



But there's a catch! This is one of the most important caveats of technical analysis, in my view, and it's critical today.

Technical analysis is best used in conjunction--harmony, if you will--with fundamental analysis. In other words, if we base our outlook purely on the charts, things are looking good. But if we bring fundamentals into it and consider that this is the last trading day of the month--a day where tradeflows can be heavily influenced by month-end trading needs--we suddenly find ourselves wanting to wait until next week to get too excited about any technical achievements today.

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