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The Day Ahead: Bonds Not Out of Woods Yet

The Fed announcement is in the rearview and bond markets are beginning their 3rd straight day of improvement. Does this mean last week's sharper move higher in rate was a **false alarm?**

We **have to be careful** about jumping to conclusions when it comes to false alarms. Specifically, last week's move toward higher rates provided a definitive break of 2 months worth of consolidation in bond markets. Yields remain above the pivot points and trendlines implied by those 2 months and we can't get too optimistic about a triumphant bounce back until those levels are broken (don't worry, I'm about to show you exactly where they are).

To best understand what I'm talking about, we can simply look at the next most recent instance of a consolidative ("triangular") trend in rates and see how the aftermath played out. In the following chart, note the trendlines associated with the older triangle (uptrend and downtrend "1," in white). When these trends collide, we're not quite done keeping an eye on them. All too often, yields will **check in with old trends in the future**, and these were no exception.

As you can see, last week's rise in yields brought them back to "visit" with both of the old trendlines. For now, they've confirmed that the winner (downtrend 1) gets to keep the title belt. Score 1 for the good guys. But recent gains are **quickly setting us up for a similar showdown** with the more recent consolidative trends (teal lines). The fast and slow stochastic studies (labeled as shorter and longer term momentum) corroborate the thesis. In plain English: shorter-term momentum has been good, but longer term momentum is still in question.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.09	+0.31
MBS GNMA 6.0	101.03	+0.29
10 YR Treasury	4.5138	-0.0657
30 YR Treasury	4.6711	-0.0579

Pricing as of: 5/3 5:04PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.28%	-0.09	0.00
15 Yr. Fixed	6.75%	-0.07	0.00
30 Yr. FHA	6.70%	-0.12	0.00
30 Yr. Jumbo	7.48%	-0.07	0.00
5/1 ARM	7.35%	-0.07	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: 5/3

With the Fed out of the way, **markets are wondering** where the next glut of directional inspiration will come from. The underlying long-term bull market in bonds is one option, and a deeper correction ("higher in yield") is the counterbalancing option. Bond bulls are wondering if it's time to put their bets back on the table, and short sellers are wondering how much they can get away with before reality sets in again (though a few short sellers actually may believe yields made all-time lows earlier this year).

The behavior we witness when/if yields hit the "teal intersection" **can tell us a lot** about which side of that debate is making the best case.

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