Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
Fax: 214.975.2874
richblanchard@richhomeloans.com
View My Website

The Week Ahead: Could This Really Be The Big Bounce?

It seems that money managers and financial journalists will not relent in their calls for US bond yields to have reached a long-term floor this summer and to now be in the process of moving inevitably higher.

That's a fear that's much easier to have when bonds have been moving steadily higher for nearly 3 months now. In fact, I can empathize. I'd like to think that my outlook on bonds is completely unbiased at any point in time, but I often ask myself "am I feeling bullish simply because rates have been falling" and "am I defensive simply because rates have been moving higher?" These are natural tendencies, and we should keep them in mind any time we hear someone claiming rates have to go higher in the weeks following a long-term low.

In other words, yes... it's only natural to be scared about a long-term low when rates are moving higher after hitting all-time lows. It was the same in mid-2013 and early 2015 as well. In both cases, rates eventually found a reason to fall again, but for some reason, the most vocal bond market opinions seem to think that we won't ever find another reason to move lower. And just never you mind about that lackluster growth and inflation (the two quintessential components of bond yields)!

Here's the bounce they're afraid of at the moment:

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

If the pessimists are right, we should start to see 'resistance' (i.e. yields bouncing, or at least having a hard time moving lower) at either of the lines that they're currently attempting to cross (the lower yellow line from the implied uptrend since July and the horizontal pivot point at 1.60). As we've already discussed, it would take a huge sell-off to even begin to make the case for a big picture bounce in yields. We're talking about 10yr yields over 2.5% as the STARTING point of the conversation. Until then, it would just be another correction in the decades-long bull market for bonds.

On a more timely note, keep in mind that it's the end of the month and quarter this week, and that tends to make things more active for bond markets. Not only that, but it tends to coincide with a higher degree of underlying momentum, independent of the economic data. If any such biases exist, they're increasingly likely to surface as the week progresses, with Thursday and Friday being the biggest risks.

Subscribe to my newsletter online at: http://housingnewsletters.com/richhomeloans

Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

Rich E. Blanchard