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The Day Ahead: The First Real Chance to Challenge Uptrend in Rates

I talk a lot about **"trends"**--a word that's easy enough to understand in a general sense, but more esoteric when we try to understand it in specific terms. Let's demystify it a bit.

In a general sense, a trend simply refers to **"direction."** Far more accurate would be to say "persistence of directional movement." If yields are persistently moving in an upward direction, we could translate that as "uptrend in rates."

But **how do we identify trends?** Wouldn't you know it! There are multiple ways! The simplest is to draw a line connecting the highs and lows on any given chart of your favorite bond market security. The more "touches" along that line, the more relevant the trend is. Even if the charted security is bouncing on an implied trendline that runs parallel to the outermost line, it still speaks to the relevance of the trend.

That last sentence was about as confusing as it gets. Let's use a picture instead. That sort of parallel trendline is seen in the dotted white line below. It's not the outermost trendline (which would be the yellow line). The yellow line rests along two of the lowest CLOSING levels (which are important when it comes to charting), but the white dotted line has far more "touches" (seen in the teal asterisks). Those touches only **reinforce the overall trend**, because that is the pace at which yields have been rising. The fact that we have two closing levels touching a parallel line adds validity to the yellow line as a sort of outer boundary.

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	0.0000
30 YR Treasury	4.6711	0.0000

Pricing as of: 5/5 7:51PM 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



As the chart shows, that "outer boundary" trendline was **broken yesterday** and the tiny red candlestick is today's attempt (so far) at holding below that trendline. If we do, it will be the first indication that the Aug/Sept uptrend is breaking. If the break is confirmed, we'd still want to see some confirmation next week to be sure we're not just benefiting from the **month/quarter-end** trading environment.

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