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 Day Ahead: Bond Traders are People Too

Few days of the year can be more **frustrating** to bond market stakeholders who find themselves compelled (either by themselves or their superiors) to punch in for a few palty hours to interact with other similarly frustrated market participants. It's a good day to take a break from focused analysis and to share a reminder about the nature of financial markets. In fact, I reserve the right to copy and paste this commentary on a few of the days in late December as well!

I remember being so surprised--**incredulous** even--to learn that half-days, holidays, Friday afternoons, first days of school, spring breaks, and any of the various days juxtaposed to the more common "out of office" days actually had an effect on bond market trading. Surely, these flashing numbers on the screen would continue to flash as they always had, regardless of changes in staffing levels. Moreover, surely staffing levels wouldn't take a big hit around these "out of office" days because unlike most people in most jobs, traders surely had to be more serious and less prone to punching out like "normal people."

Or so I thought.

As it turns out (and as I'm fond of saying on these "out of office" days), **traders are people too**. Whether we're talking about the thousands of money managers out there who are buying and selling bonds to match index levels for their portfolios, major financial firms' proprietary trade desks, major financial firms running books and hedging for corporate accounts, portfolio managers for insurance/pension funds or other strategically-motivated accounts with longer-term time horizons, hedge funds and other tactically-motivated accounts with shorter-term time horizons, Commodity Trading Advisors at the CME, or the throng of avid day traders with online brokerage accounts, or even the guys/gals overseeing the smooth functioning of an algorithmic bond trading program, they all like to get out of the office from time to time, and they all handle it in a **surprisingly similar** way to anyone else.

Just as an accomplished loan originator leaves instructions for clients and a set of do's/don't's for whoever is watching the desk/phone/email while they're away, most bond traders have a **similar protocol** for delegation and departure:

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.40	-0.15
MBS GNMA 6.0	100.78	+0.04
10 YR Treasury	4.4223	+0.0454
30 YR Treasury	4.5610	+0.0549

Pricing as of: 5/17 5:59PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	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: 5/17

1. Make sure whoever is covering for me knows what HAS TO get done today.
2. Make sure they know what MUST NOT be done today.
3. Make sure they know where the line in the sand is, beyond which, they're going too far.
4. Make sure they know about the other line in the sand, before which, they're not going far enough.
5. Make sure clients know who to contact
6. Make sure to keep trying to take baby steps toward one day being truly able to step away without checking in, wanting to check in, or simply worrying about how things are going back at the office in their absence.

When an originator leaves such a list for a junior LO or processor, it's a pretty **simple framework** for prioritizing the important files to work on, fielding any inquiries from clients, clearing conditions/locking/ordering docs/etc. on specific files, and avoiding all of the same on a problem file that the absent originator prefers to work on personally.

It's strikingly similar--perhaps **even more simple--** for traders. If bonds hit this level, sell. If bonds hit that level, buy. If bonds are in this range, do nothing. Make sure we're holding $x.xx by the end of the day. Get your trading done before a certain time of day. If this client calls, do whatever they say. If that client calls, tell them I'll talk to them when I get back. Even in the case of the algorithmic trading program that needs no vacation time, the team of programmers behind the algorithm may well be adjusting it based on the "out of office" trading conditions.

The point of all this is that for all the seeming complexity and automation, even financial markets run on human power. When those particular humans do what other humans do and attempt to detach for a 4 day weekend, the less fortunate (or perhaps merely 'indifferent') humans left in charge are operating under a different set of rules. In general, it's fair to say the phrase "don't rock the boat" applies in almost any "out-of-office" situation. Financial markets are no exception.

All that having been said, this **doesn't** mean the boat **cannot** possibly be rocked. However, it does mean that any rocking of the boat is more likely to be a temporary distortion as opposed to new trading momentum when viewed with the benefit of hindsight next week.

Bottom line, as a general rule, don't read too much into today's trading. If something different and important seems to be going on, I know a guy who is perennially unable (or unwilling?) to take these "out of office" days off, and who will certainly let you know if he sees something interesting--provided you're an MBS Live member. Non-members can read about it in the recap. Happy Holidays.

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