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MBS Recap: Bonds Move Right Back to Pre-ECB Stance

Yesterday we discussed the rally in bonds as a function of **short-covering**. That meant traders were in a defensive position on Tuesday night--betting on rates moving higher--and then closed those positions yesterday. Closing a short position equates to "buying." Buying results in yields moving nicely--and even unexpectedly lower.

The **problem** with short-covering rallies is that they're not indicative of organic buying demand. That means that the news or event prompting traders to move to the sidelines has to have a positive impact on bond markets or trading levels will simply move right back to where they were before the short-covering rally. In a nutshell, that was today.



Yields never even thought about approaching some of the higher recent levels, but neither did they make a serious attempt to move below the 2.35% technical level. The ECB "tapered" (though Draghi said the word never came up) inasmuch as it announced a reduction in the pace of its asset purchases.

The announcement was **bond-friendly enough** that it had fairly minimal impact. For example, German Bunds only rose to .38 from .35 at yesterday's close--fairly well in line with the .37 close from Tuesday.

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

With no more significant data or events on tap this week, all we can do is watch technical levels and wait for markets to **give us a sign**. Until 2.42% in 10yr yields is definitively broken, it continues its fight to act as a ceiling. Even if it breaks, the big-picture pivot is just overhead at 2.50%.

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