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The Day Ahead: Things Are Getting Serious For Bonds

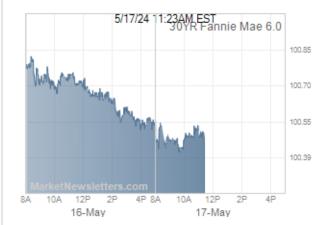
Not that we didn't already know this, but bond markets have been on the back foot ever since last week's rapid shift in Fed rate hike expectations. This had the effect of pushing yields to the higher side of their consolidation range (the one that's been intact for several months--portraying a sideways grind in the bigger picture). But unlike previous visits to the upper end of the range, this one was driven by overt, measurable events. It wasn't just a range-bound bounce for range-trading's sake. It wasn't just a random move to the top that we should assume would quickly reverse.

So far, that assessment is unfortunately accurate as we begin another day with bonds pushing through more upper-limit range boundaries. Those can be approached several ways, as seen in the chart below. When it comes to the "consolidation range" (the diagonal lines), we're already outside the range. We now move on to test the pivot points at 2.52 (broken yesterday, possibly confirmed today), and then 2.55 (tested overnight).

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.48	-0.06
MBS GNMA 6.0	100.77	+0.03
10 YR Treasury	4.4017	+0.0248
30 YR Treasury	4.5439	+0.0378

Pricing as of: 5/17 11:23AM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News	Daily		
30 Yr. Fixed	7.02%	+0.03	0.00
15 Yr. Fixed	6.53%	+0.03	0.00
30 Yr. FHA	6.55%	+0.03	0.00
30 Yr. Jumbo	7.31%	+0.01	0.00
5/1 ARM	7.24%	+0.04	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00
Mortgage Banke	rs 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: 5/16			

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ADP Employment could have an impact today, but the 10yr Treasury auction in the afternoon may be the most informative event in the short term.

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