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UPDATE: Implications of a 2nd Day Below The 100-Day Moving Average

There's always a fair amount of buzz when a major indicator crosses a moving average that happens to be a nice round number. While this is usually bigger news for folks on the TV when it's happening in the Dow or S&P, the recent break below the **100-day moving average in 10yr yields** has garnered some attention as well as questions from the MBS Live community.

As is the case with any technical indicator, moving averages tell us more about "what's **just** happened" as opposed to "what's **about** to happen." Oftentimes, when yields break a long-term moving average after spending months on the other side, it coincides with the end of a correction to the trend that prevailed during those months.

In the current case, the prevailing trend over the past 9 months would be toward higher yields. The correction would be the push back from the 2.60% ceiling that began in mid-December. The recent break of the 100-day moving average would then be seen as **confirmation** that bond markets have **paid their dues** in weaker territory and are now ready to "hang-out" closer to the 100-day average before finding inspiration for the next major dose of momentum.

Whatever you do, make sure you consider the most relevant past examples of moving-average breakouts before drawing any major conclusions about the current break. **2013 is especially relevant** since it's the last time that yields broke higher at a similar pace to late 2016, and spent as much time trading above the 100-day average. Unfortunately for bond bulls, the 2013 break turned out to be more of a bearish event for bonds. **Just one day** after the break marked the lowest yields bonds would see for nearly 8 months. That day corresponds to today in the context of the current breakout.

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

Fortunately for bond bulls, what happened in 2013 doesn't make gains or losses any more likely going forward from the current breakout! If rates behaved the same way every time they encountered a certain technical pattern, the fabric of reality would be torn asunder. Markets don't operate in such a way as to allow anyone who knows about 100-day moving averages to make infinite money. That's why there are plenty of examples of both bullish and bearish responses to 100-day breakouts. We have no way of knowing which one we're about to get.

I will say this: I get the impression that moving-average breakouts are most typically viewed as a positive indicator in the community of mortgage originators that follow markets more closely. Traders take a more balanced view, with MA breakouts often serving as triggers to cash-in profits. It's OK to be hopeful, but don't be complacent if yet another 2.3-ish bounce begins to take shape.

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