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The Day Ahead: Bonds Fight to Quarantine Yesterday's Weakness

We characterized yesterday's bond market weakness as a **simple and somewhat logical** correction. The initial move was Monday morning's rally that was based on an absence of updates regarding the healthcare bill. In other words, the bill looked dead, thus implying political gridlock. Bonds like political gridlock at the moment because they're afraid that new fiscal policies could stoke the fires of growth/inflation.

The "correction," then, would be Tuesday's **complete unwinding** of Monday's move due to developments that suggested the gridlock wasn't a done deal. 5 day charts paint a clear picture of Tuesday's sell-off perfectly erasing Monday's rally.

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

Today, bonds will fight to quarantine yesterday's weakness, and to characterize it as a **mere correction** as opposed to the beginning of another move back into the prevailing post-election range. They won't have much help from scheduled economic data as the only meaningful report--Pending Home Sales--isn't much of a market mover.

There are several **Fed speakers** on tap, but yesterday's comments from Fed Vice Chair Fischer ("3 hikes likely in 2017) seem to have already set the tone.

1pm brings the last of this week's **Treasury auctions.** 7-year notes don't tend to elicit the same sort of response as 5's, 10's, or 30's, and none of the above are top-tier market movers in the first place. Even so, the end of any given week's Treasury auction cycle can occasionally mark a shift in tone for bond market trading--just something to keep an eye out for at 1pm.

From a technical standpoint, bonds would need to close at or below 2.38% (10yr yields) in order to **avoid** sending a negative signal in short-term technicals. Specifically, fast stochastics will cross back above the overbought line if 10's don't stay under 2.38.

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