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UPDATE: US Bonds Hope "Bundwagon" is Heading Their Way

Bond markets often jump on the proverbial bandwagon and ride in whichever direction overall financial markets suggest.

Bond markets sometimes lead the charge or simply trade their own way regardless of other markets. A "bondwagon" perhaps?

Today's favored mode of transport (so far, anyway) is the "Bundwagon."

"Bund" is a German word that sounds similar to "bond." In a market context, it's used interchangeably with "bond," but it actually means something more like "government, federation, union, etc." Just as some traders refer to government debt as "govies," Bunds are simply German govies. If we applied the same logic that governs the American word "bond" (which has to do with commitment and agreement), the German word would be "Bindung." And who wants to tell clients that their rates are taking cues from bindings?!

It's bad enough that we have to observe that US bond markets frequently take cues from Bunds, but it's a necessary exercise. We watch Bunds because Germany is the largest economy in the EU and it carries the most political clout. Therefore, Bunds are essentially "European bonds." They are the **benchmark**, the big daddy, the spokesperson and *sprecher* for the broader sphere of EU sovereign debt.

With this in mind, we've finally come to the meat of this update. Today brought an as-expected announcement from the **European Central Bank (the ECB)**. The ECB does things a bit differently compared to the Fed. The ECB tends to drop bigger news in the press conference that follows the meeting.

Markets were on guard against the possibility that ECB President Draghi would reference the removal of accommodation in some form (either by discussing the limits of bond buying or by alluding to future rate hikes. He didn't. Because of that, Bunds have **continued to hold** their ground in a battle back from the high yields seen early yesterday morning. That resilience spawned similar resilience in US bond markets earlier this morning (around 8:50am).

If we want to see additional benefit from European bond markets this morning, Bunds would need to break below the line seen in the following chart. To some technicians, this will look like a "**head and shoulders**" pattern, which could suggest stronger momentum in the case of a break lower.

MBS & Treasury Market Data

| | Price / Yield | Change |
|----------------|---------------|----------------|
| MBS UMBS 6.0 | 100.55 | -0.25 |
| MBS GNMA 6.0 | 101.31 | -0.18 |
| 10 YR Treasury | 4.3686 | -0.0083 |
| 30 YR Treasury | 4.5112 | +0.0051 |

Pricing as of: 5/17 12:57AM 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 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: 5/16



If that Bundwagon gets rolling, Treasuries would **love to go for a ride**. And while distance units in Europe won't translate directly to mileage in the US, the most important role of the Bundwagon would be to ferry us away from the gates of the 2017/post-election range.





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