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The Day Ahead: Bonds May Not Decide Much Today, And That Would be a Good Thing

Bond markets may not give a stellar performance today, offering resounding confirmation of an ongoing rally. Conversely, they're not likely to rise enough to raise serious questions about an ongoing rally.

When it comes to getting a sense of potential outcomes for the immediate future, there are 2 things I would keep in mind today. One of them is **omnipresent** and the other is specific to the **current situation**.

Omnipresent: if there were a good way to know what the next few days of trading would look like in any given market beyond a reasonable doubt, everyone would trade accordingly. Of course, not everyone can be a buyer at the same time or vice versa, so markets would "break" and the trade that looked like a sure thing would be at risk of a paradoxical reversal. In that sense, it's actually a good thing to see some balance in the force after Wednesday's big rally.

Current Situation: to dovetail on the point above (i.e. "good to see some balance"), yesterday's bounce back was far from heart-breaking. In fact, yesterday's closing levels were the lowest "consecutive close" of the year (a level that bonds have close at or below for at least 2 days in a row). Technicians would refer to this as a "**confirmed**" level. In other words, Wednesday's break below 2.17 was a "test," just like the tests seen on 6/6 and 6/2. In both those cases, yields were back above 2.17 the following day.

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



The bottom line is this: considering that we're beginning the day in slightly stronger territory and that yesterday was the first time all year we've seen a consecutive close under 2.17%, we're far from giving up hope on a broader move toward lower yields. That doesn't mean we shouldn't be cautious or defensive if markets shift to suggest it (or simply for risk-averse clients). But they definitely haven't suggested it yet.

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