Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
Fax: 214.975.2874
richblanchard@richhomeloans.com
View My Website

The Day Ahead: Beware The (Ongoing) Bounce

Fancy chart overlays and technical studies are frustrating in the sense that they give us another angle to understand and discuss market movement, but they fall far short of reliably predicting the future. Spoiler alert: that holy grail won't ever exist when it comes to legally tradeable, publicly available market insight because, if it did exist, word would get out, the trade would become crowded, and it would no longer be a money maker.

But let's forget I said all that so I can sell you a bit of this snake oil. It's like taking elderberry extract when you think you might be getting sick. If you don't get sick, was it the elderberry? Will you ever know?

Same story with momentum technicals in the bond market. Both shorter and longer-term momentum technicals hit overbought levels at the beginning of February and we began discussing the risk of a bounce. That bounce is now underway, albeit at a pace that isn't overly threatening so far. Did the technicals presage this or were they in the right place at the right time to coincide with a deceleration in coronavirus cases? Who knows! But to whatever extent this snake oil has any medicinal value whatsoever, the longer-term momentum technicals have reached the point of suggesting additional weakness in bonds in the coming days.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.10	-0.25
MBS GNMA 6.0	99.88	-0.27
10 YR Treasury	4.6397	-0.0287
30 YR Treasury	4.7511	-0.0141

Pricing as of: 4/17 5:13AM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.50%	+0.06	0.00
15 Yr. Fixed	6.89%	+0.04	0.00
30 Yr. FHA	6.95%	+0.09	0.00
30 Yr. Jumbo	7.64%	+0.04	0.00
5/1 ARM	7.40%	+0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.88%	-0.56	0.00
15 Yr. Fixed	6.16%	-0.60	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.01%	+0.10	0.59
15 Yr. Fixed	6.46%	+0.11	0.60
30 Yr. FHA	6.80%	+0.06	0.93
30 Yr. Jumbo	7.13%	+0.07	0.56
5/1 ARM	6.41%	+0.04	0.67

Rates as of: 4/16

Is there a risk of a bigger bounce in coming days? Absolutely. That's really always the case. There's also a possibility bonds will turn around and rally. A simple examination of all the facts suggests the risk of weakness is bigger than the chance of a rally, BUT (and this is the biggest and most important "but" when it comes to thinking about what the market is likely to do) the average trader is well aware of all those same facts and is thus already positioned for that probability. The net effect is a more neutral outlook.

The only responsible way to approach this is in terms of "ifs" and "thens." And it's in this approach that we find some fairly logical risk. Bonds do indeed need to avoid a big selling spree until the coronavirus-related impact on markets is better understood. In other words, it makes sense for yields to be hanging out under 1.67% at the moment. If the virus-related news continues to improve and if the incoming economic data shows less of an impact than expected, it would make sense for yields to keep moving up. In any event, this is the baseline reaction function for markets right now. It's the probability we should defend against even though a turn for the worse in the news or in econ data could promote a more bond-friendly agenda.

Subscribe to my newsletter online at: http://housingnewsletters.com/richhomeloans

Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

Rich E. Blanchard