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# The Day Ahead: Panic In The Bond Market; Why So Serious?

After weeks and weeks (6, to be specific) of extraordinarily calm and narrow trading ranges in ultra-low-yield territory, the bond market has suddenly decided it's time to jump back up toward higher yields. The move is fairly large, abrupt, and serious. But why?

The longer a trading range remains as narrow as the one just witnessed, the bigger the risks become that **"something else"** will happen. There are really only 2 choices when it comes to departing a narrow, sideways range. Yields were either going to move higher or lower.

**I won't** say that one of those eventualities was more likely than the other, but the weakness we're seeing was certainly more likely in the event that incoming data (either about covid numbers or economic recovery) was markedly stronger than expected.

Quite simply put, markedly stronger data is exactly what we had on Wednesday (ADP and ISM). This was probably the **most dangerous** data for the bond market because a massive beat in ADP numbers always whips up a bit of panic over the prospects for the big jobs report that follows 2 days later. In other words, a good portion of the current yield spike is anticipatory. Bonds are bracing for the impact of an upside surprise in today's jobs report (830am ET).

The jobs report **isn't the only concern**. Yesterday saw yields spike with no major provocation. Some analysts pointed to the European Central Bank announcement as the driving force yesterday, but I can't reconcile that with the trading we actually saw. Right off the bat, EU stocks had a pretty flat day. Moreover, US Treasuries were clearly the big mover in a comparison with EU bonds and US stocks.

## MBS & Treasury Market Data

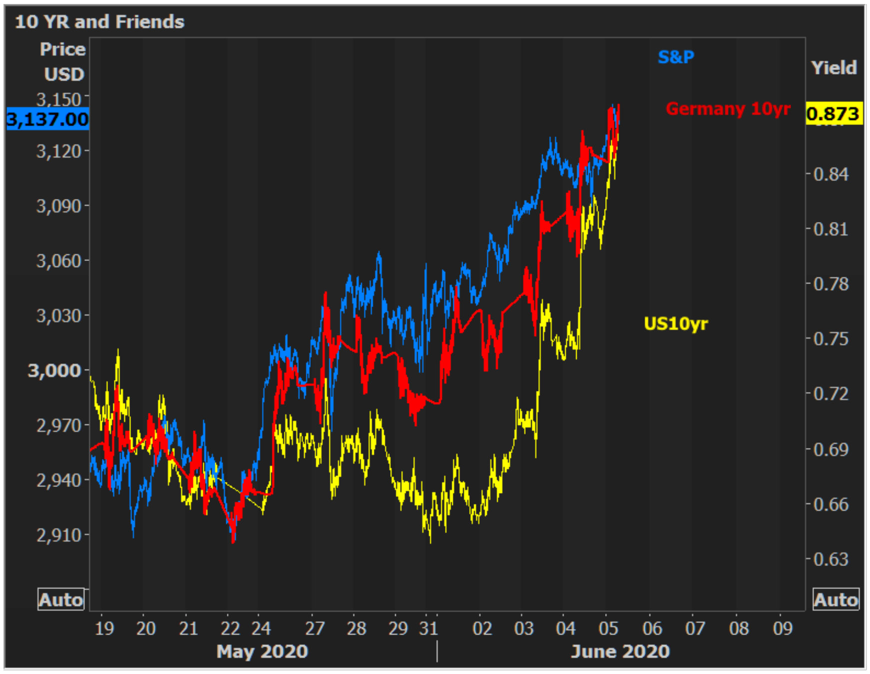
| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 100.09 | +0.31 |
| MBS GNMA 6.0 | 101.03 | +0.29 |
| 10 YR Treasury | 4.5138 | -0.0657 |
| 30 YR Treasury | 4.6711 | -0.0579 |

Pricing as of: 5/3 5:04PM EST

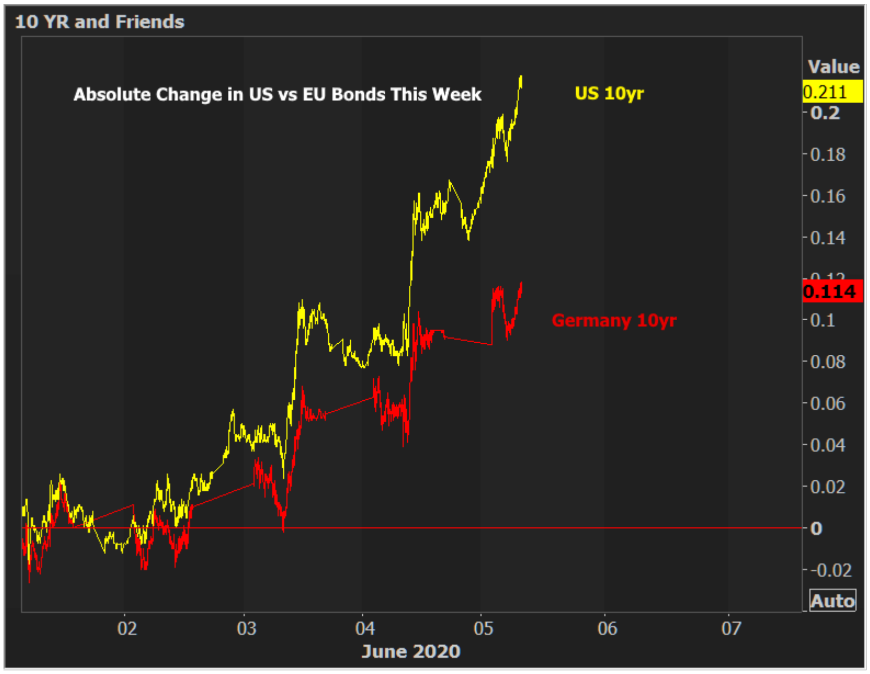

## Average Mortgage Rates

| | Rate | Change | Points |
|---|---|---|---|
| **Mortgage News Daily** | | | |
| 30 Yr. Fixed | 7.28% | -0.09 | 0.00 |
| 15 Yr. Fixed | 6.75% | -0.07 | 0.00 |
| 30 Yr. FHA | 6.70% | -0.12 | 0.00 |
| 30 Yr. Jumbo | 7.48% | -0.07 | 0.00 |
| 5/1 ARM | 7.35% | -0.07 | 0.00 |
| **Freddie Mac** | | | |
| 30 Yr. Fixed | 7.22% | -0.22 | 0.00 |
| 15 Yr. Fixed | 6.47% | -0.29 | 0.00 |
| **Mortgage Bankers Assoc.** | | | |
| 30 Yr. Fixed | 7.24% | +0.11 | 0.66 |
| 15 Yr. Fixed | 6.75% | +0.11 | 0.64 |
| 30 Yr. FHA | 7.01% | +0.11 | 0.94 |
| 30 Yr. Jumbo | 7.45% | +0.05 | 0.56 |
| 5/1 ARM | 6.64% | +0.12 | 0.87 |

Rates as of: 5/3




This chart leaves too much open to the imagination though, so let's **isolate** US 10yr yields vs EU 10yr yields (Germany is the benchmark) and let's look only at the change in yield since the beginning of the month/week.




US Treasuries have weakened almost twice as fast as EU bonds, and they really began to pull away after Wednesday's econ data. There is no doubt the US bond market is moving of its own volition, and yes, things are serious. 10yr yields have quickly taken out both the .74 and .79 technical ceilings that kept watch over the narrow range of the past 6 weeks (in fact, .79 goes back 9 weeks). The uptrend we **HAD** been following was obliterated; it was too tame to contain the upward momentum. Yields are now as high as they've been since the week the Fed stepped in with emergency bond buying back in March.


Unfortunately, this is **not** all going to go away if the jobs report comes out weaker than expected today.  Wednesday's data was merely the catalyst for a shift in the bond market narrative.  Simply put: we're playing defense now--on the lookout for any and all data that feeds the narrative of a domestic economy that is able to get back to business more quickly than whatever the baseline expectation happens to be.  The additional pressure on Treasuries from stimulus-related issuance (2nd round of stimulus checks in the news) and record-setting corporate bond issuance isn't helping.  The **consolation** is that mortgage-backed bonds are not as troubled by such things, so mortgage rates don't have to move higher quite as quickly as Treasuries.

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**Rich E. Blanchard**