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The Day Ahead: 8 Examples of New Year Bond Trading Themes

This week promises a slow start due to the early close today and full closure tomorrow, but a strong finish due to **Friday's NFP** and the simple fact that it's a new trading year during a fairly volatile phase for markets. I've talked a lot in recent weeks about the general truths of new year trading, so I figured it was time to put together charts with examples of recent new year themes.

Here are the 7 most interesting new year trends/reversals of the past 8 years. 2 of them didn't make the cut because nothing new happened, but 7 out of 9 is more than enough to suggest a risk of volatility ahead. As the charts show, the **bigger volatility risk** is for that of a reversal, although there's at least one notable example of a rally actually accelerating.



MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.39	+0.19
MBS GNMA 6.0	100.53	+0.14
10 YR Treasury	4.3602	-0.0724
30 YR Treasury	4.5297	-0.0761

Pricing as of: 7/3 4:55PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.08%	-0.05	0.00
15 Yr. Fixed	6.45%	-0.02	0.00
30 Yr. FHA	6.55%	-0.05	0.00
30 Yr. Jumbo	7.25%	-0.04	0.00
5/1 ARM	7.07%	-0.03	0.00
Freddie Mac			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Mortgage Bankers Assoc.

30 Yr. Fixed	7.03%	+0.09	0.62
15 Yr. Fixed	6.56%	+0.09	0.54
30 Yr. FHA	6.90%	+0.11	0.95
30 Yr. Jumbo	7.11%	-0.01	0.50
5/1 ARM	6.38%	+0.11	0.54

Rates as of: 7/3







It's very important to consider that there's really only one example here where bonds were clearly trending stronger and then accelerated into better territory with the new year. That was the end of 2014 and the beginning of 2015 which happened to be when the European Central Bank pulled a huge bond buying rabbit out of the proverbial hat by winning approval to begin its quantitative easing program. Apart from that, the most accurate way to describe new year trading would be to say "something different" happens compared to whatever was happening at the end of the previous year. So without further ado, decide for yourself what the risks might be with respect to the current passing of the annual baton.



If that's not enough to scare you, consider that the only other time in the past 12 years that we've been 'overbought' on New Years Eve was at the end of 2008. Granted, that was a pretty exceptional time in modern economic history, but nonetheless, it was followed by a massive corrective bounce in early 2009.



In case that freaks you out more than you'd like, please keep in mind that past precedent is always a worthless predictor of the future, except in cases when it's not. In other words, sometimes this stuff pans out, sometimes it doesn't. The **only reason** to discuss and consider the precedents is as a reminder of things that CAN happen. There's never any way to know what WILL or SHOULD happen because that would suggest traders know less about trading than some guy writing on the internet.

What I mean by that is this: to whatever extent we can analyze and draw conclusions about financial markets, deep-pocketed investors have already done the same and are already positioned for it. This means **everything** we can guess about the future is already priced-in to current trading levels.

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