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A Message from BRETON MACDONALD:

"Rates are dropping!"

UPDATE: Bonds on a Tear Before and After Stock Slide

Bonds maintained momentum after bouncing back to unchanged levels earlier this morning. 10yr yields are now **more than 3bps lower** on the day at 2.43% and Fannie 3.5s are 7/32nds higher at 102-02.

The bond-market-specific nature of rally is **evolving** now. Earlier this morning, bonds led the way and were marching to their own beat. This is very easily seen in the upper pane of the following chart (which I cut off right at 9:40am). Through that time, stocks were still tracking higher, European bonds hadn't fallen much, and Treasury yields were moving decidedly lower.

Old sayings about **bond traders being smarter** than stock traders may apply as stocks soon followed (as seen in the lower pane of the chart).

MBS & Treasury Market Data

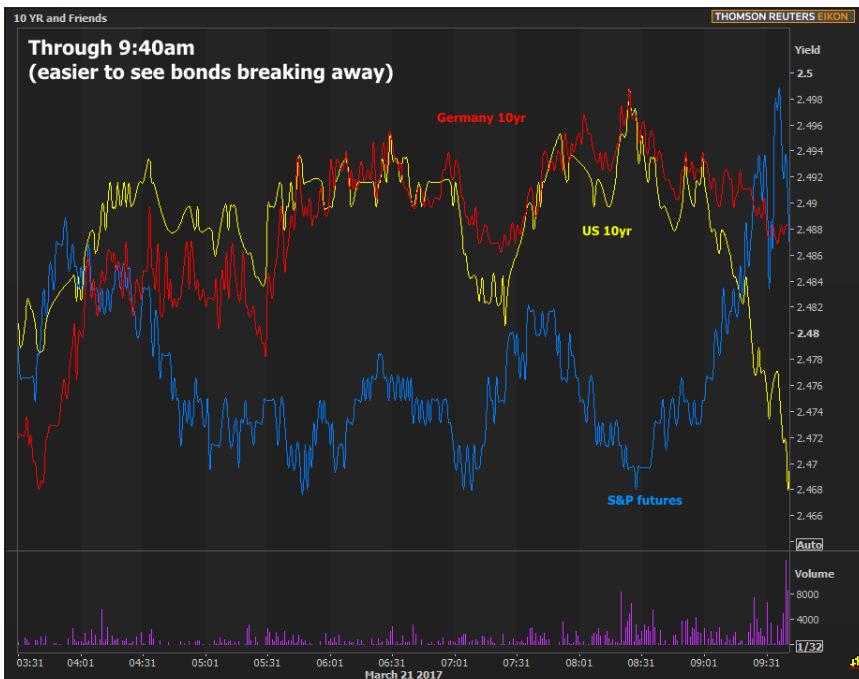
	Price / Yield	Change
MBS UMBS 5.5	99.37	-0.02
MBS GNMA 5.5	99.73	-0.04
10 YR Treasury	4.2535	+0.0010
30 YR Treasury	4.4856	+0.0131

Pricing as of: 7/23 4:47PM EST

Average Mortgage Rates

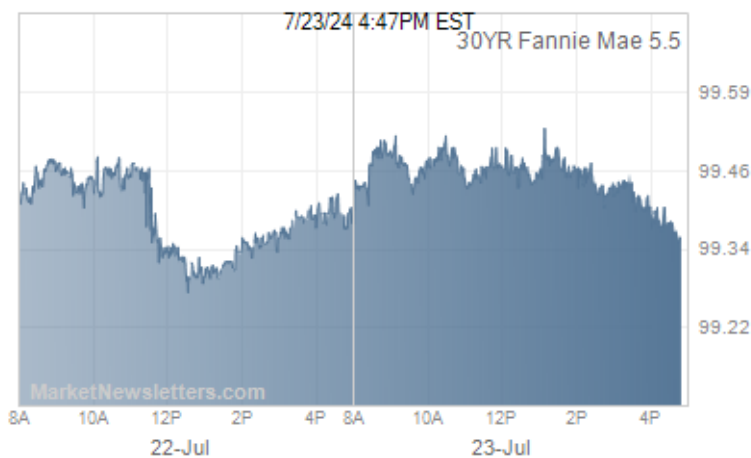
	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.87%	-0.02	0.00
15 Yr. Fixed	6.32%	-0.01	0.00
30 Yr. FHA	6.33%	0.00	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.59%	+0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/23



Even though bonds led the move, it's more than fair to conclude that stock weakness is now adding to the gains. Stocks and bonds **won't always** track each other from day to day, but when stocks are in the midst of the biggest loss of the year, bonds tend to absorb some of that cash.

Compared to the stock losses, bond gains have been sober--even "**minimal.**" The **flipside** of that statement is that bonds had already had a "big" day after last week's Fed forecasts, so perhaps stocks are just getting caught up to a bigger-picture shift in the "**risk-on vs risk-off**" trade.



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