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UPDATE: What's Behind This Morning's Rally?

In a word: China.

In 7 words: China's manufacturing data and US manufacturing data.

Manufacturing data in China was weak at the start of the overnight session. It wasn't so much that the outright level was shocking as much as it was a step back in the recovery that had been underway. In other words, Chinese manufacturing data tanked in August and September, but had been bouncing back since then. Today's data **derails that trend** and casts further doubt on the big picture for the Chinese economy.

Chinese equities markets agreed, with a **7% drop prompting a closure** in one of the stock indices. Those that remained open were similarly hard hit. The equity market weakness spread globally and sovereign debt (such as Treasuries and German Bunds) played its typical safe-haven role.

That accounts for **most** of this morning's momentum, but we can also consider the possibility that some of this morning's motivation could simply be due to the new 2016 trading positions as discussed in the Day Ahead.

Most recently, the **domestic manufacturing** data came in weaker than expected (ISM manufacturing activity lowest since June 2009). This began with the less-highly-regarded Markit Manufacturing PMI. While not a huge market mover in and of itself, it can serve to foreshadow the official ISM Manufacturing PMI that typically follows 15 minutes later. In today's case, the Markit data was weak enough to cause some additional improvement in bond markets. The ISM data indeed proved to be weaker than expected (48.2 vs 49.0) resulting in another extension of the morning's rally.

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



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