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The Day Ahead: When Will Bond Market Luck Run Out?

Bond markets continue **defying the odds** so far in 2016, with another strong performance in the overnight session (although things may be leveling off this morning). In general, we've seen one of two things. This is probably a classic "flight-to-safety" based primarily on concerns relating to China. It could also be a mere byproduct of the new year's tradeflows. It doesn't have to be "either/or" though, and most likely it's a combination of the two.

Whatever the case, there's no denying the **massive losses** in Chinese equities markets so far this year, or the fact that they've been dragging down other equities markets around the world. As investors panic (relatively), Treasuries have gotten a boost, but as you can see in the chart below, it's not nearly commensurate with the movement in other markets.



Given the Fed rate hike and strong ADP data yesterday--among other reasonably decent economic anecdotes--we would be **more justified** in expecting bonds to be under pressure at the start of the year. So the modest gains are a pleasant surprise.

This hearkens back to August 2015 when China-related panic was an even bigger issue. It presented a **few good days of opportunity**, ending in a massive bounce as soon as China's freefall was arrested. As such, we should stay vigilant about a similar bounce this time around.

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

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Oh, and NFP is tomorrow too. That brings up the question of the day: are markets more interested in trading the bigger picture concerns or will NFP have its normal amount of market moving power? There's no way to know until we see how the market trades it. The reaction has the potential to tell us a lot about investor sentiment. Either way, for now, it's **too soon** to view the past few days as anything other than a gift that isn't guaranteed to stick around.

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