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The Day Ahead: Bonds Continue to Struggle With Technicals

If we take the awesome part of 2016 for granted and simply focus on our most timely challenges, we find bond markets struggling to make any further improvement. Indeed, 10yr yields made it down to 1.98 in fairly short order this year, but haven't been able to close below there, despite several attempts. This has resulted in the technical momentum indicators looking increasingly gloomy.



These sorts of roadblocks **don't necessarily** need to be a bad thing though. Indeed one of the classic technical chart formations is the "pennant," characterized by converging lines connecting the highs and lows after a bigger run in either direction. Just imagine a pennant at the end of a flagpole and you get the idea. The S&P chart gives us a better look at it:

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.63	+0.01
MBS GNMA 6.0	100.79	+0.05
10 YR Treasury	4.2730	-0.0088
30 YR Treasury	4.4604	-0.0253

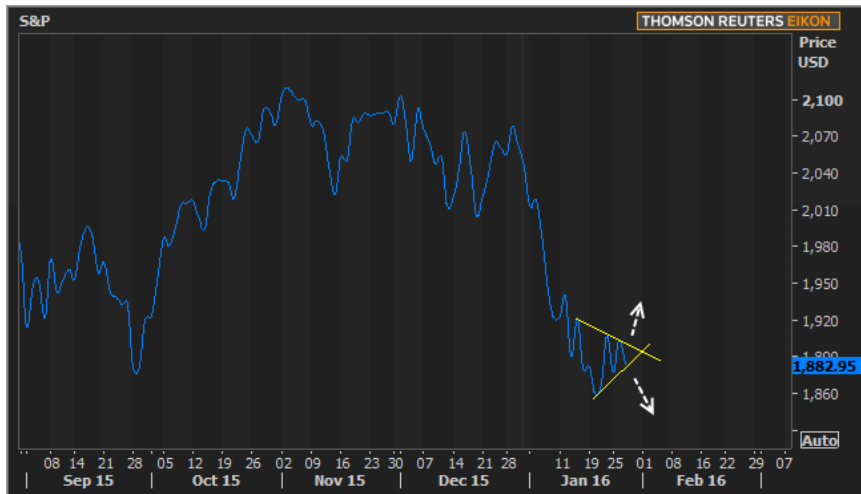
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Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.01%	-0.02	0.00
15 Yr. Fixed	6.41%	-0.03	0.00
30 Yr. FHA	6.48%	-0.02	0.00
30 Yr. Jumbo	7.22%	-0.02	0.00
5/1 ARM	7.03%	-0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	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: 7/8



Pennants are most commonly viewed as indicators of a **consolidation** followed by **continuation**. In other words, perhaps stocks are just catching their breath before more selling, and bonds before more buying. Ultimately, the ability to view these pennants as indicating a continuation of January's move depends on their ability to break the lower trendlines. That means 10yr yields would need to close under 1.98. Naturally, the bigger the break and the more sustained, the more convincing the statement will be about the technical break.

Today brings a moderate amount of economic data with **Durable Goods** probably being the headliner at 8:30am. It's joined at the same time by Jobless Claims and followed at 10am by Pending Home Sales. At 1pm, the last Treasury auction of the week goes off with 7yr Notes.

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