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The Day Ahead: Bonds Square Off With 2016's Technical Nemesis

- 1.72 has been more of a roadblock than any other level for 10yr yields
- We're currently at risk of bouncing there
- Today's data may not help, but post-auction could be interesting
- What is "technical resistance?"

I've tried to distill the essence of "technical analysis" on occasion, but the result usually adds about as much clarity as Zoolander saying "moisture is the essence of wetness." Even so, I will give it another shot. Simply put, technical analysis is a framework for **finding meaning and significance** in market movements that relies solely on market movement itself.

The technical analyst is **analogous to a biologist** who only takes notes about the behaviors of any given species, independent of external variables. For instance, this biologist wouldn't make note of the fact that ring-tailed lemurs get wet when it rains. Instead, they'd simply note how wet the lemurs got, for how long, and on what day. Over time, they'd look for patterns in lemur wetness, and apply various mathematical models. In the best cases, those models can have some sort of predictive value. For the most part though, those models simply tell us if the current level of lemur wetness is 'significant.'

Even though the underlying subject of this site is MBS, our favorite lemur for analytical purposes is the 10yr Treasury yield (for these reasons). Rather than measure the moisture content of lemur fur, we can **simply observe 10yr yields trading near 1.72%.** If there were a magic threshold that let the biologist in the example know when a lemur's wetness became 'significant' compared to the rest of 2016's data, it would be analogous to 10yr yields trading under 1.72%.

From there, we can line up the outright trading level of 1.72 with various calculations applied to past measurements. Over time, those calculations end up forming patterns and giving us things like the fast and slow stochastic oscillators in the lower two panes of the chart. The fast one (shorter term momentum) says we're **ripe for a bounce** right at the same time that yields are hitting that 1.72% threshold. That's a bit scary, but the slow one (longer term momentum) says we haven't made the shift yet.

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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I'm not a pure technical analyst, so now we're bringing other variables into play. (After all, I'm sure we can all agree that the biologist from our example could do a better job if he/she paid attention to the weather, right?) With that in mind, **this week's biggest rainstorm** has been in the form of "supply," meaning a ton of Treasury and corporate bond issuance that bond investors have to buy. More inventory to buy = lower prices, all things being equal. Today is the last of the Treasury auctions with 30yr bonds at 1pm. We occasionally see bond traders' cards turned over on such Thursday afternoons. So we'll be looking for any clear biases in the 1-2pm hour and in the meantime hoping we don't stray too far from 1.72.

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