Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

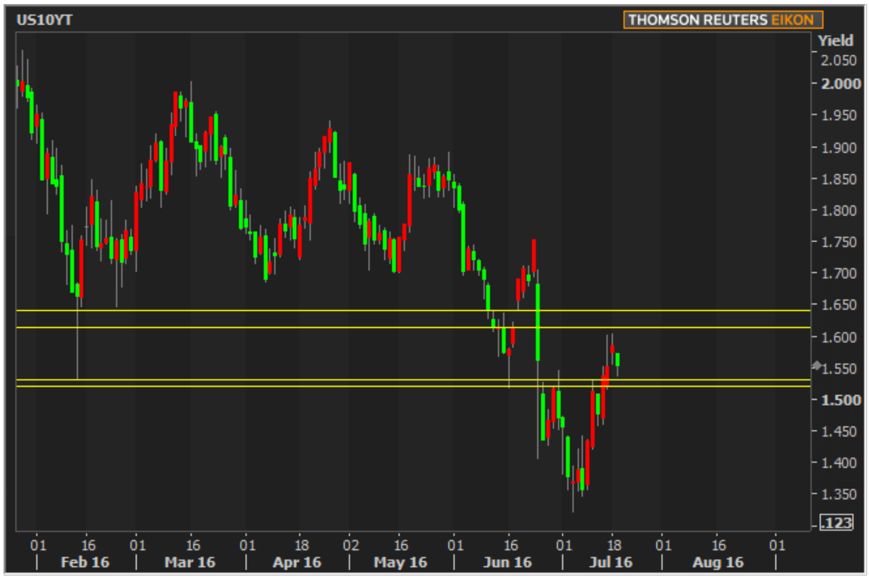
Office: 720.619.9900
Mobile: 303.328.7047
Fax: 214.975.2874
richblanchard@richhomeloans.com
View My Website

The Day Ahead: Bonds Minding Gaps as Housing Data Continues

The concept of "the gap" is one of the most basic when it comes to analyzing charts of financial market movement. Under the most common definition of "the gap," prices or yields jump higher or lower between one day's range and the following day's range. In other words, if the lowest yield on any given trading day is still measurably higher than the previous day's highest yield, **there's a gap!** The bigger the gap, the more scrutiny it will receive

When gaps are created, there is usually momentum in the direction of the gap. In other words, if the 2nd day of a gap is in a higher range, then momentum is toward higher levels. From there even if yields (or prices) happen to break back through the gap, its levels would **still** be considered technically significant.

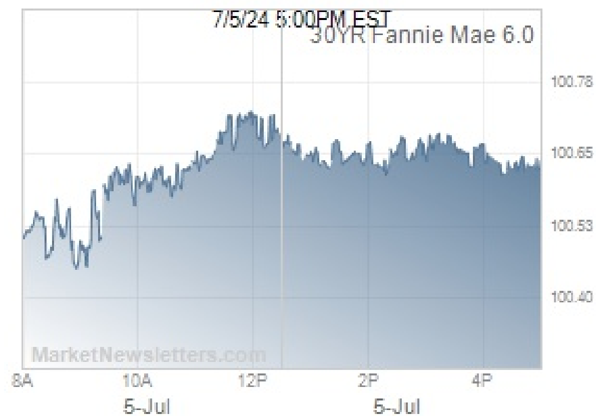
It's pretty simple. If a quick burst of momentum and trading occurred there before, the assumption is that there are trading positions waiting to be covered or put back on when markets regain those levels. Analysts will frequently refer to that phenomenon as **"filling the gap."** We can see this kind of gap in the upper section of the following chart of 10yr yields. It rests between 1.61 and 1.64, approximately.



MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.61	+0.22
MBS GNMA 6.0	100.74	+0.21
10 YR Treasury	4.2969	+0.0151
30 YR Treasury	4.4900	+0.0043

Pricing as of: 7/8 3:53AM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.03%	-0.05	0.00
15 Yr. Fixed	6.44%	-0.01	0.00
30 Yr. FHA	6.50%	-0.05	0.00
30 Yr. Jumbo	7.24%	-0.01	0.00
5/1 ARM	7.05%	-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: 7/5

The lower two lines in the chart represent a different kind of gap. In fact it isn't really a gap at all. It's more of a range of yields where bounces have occurred (because it's not common for rates to bounce at **exactly** the same place over a period of weeks and months, but it does sometimes happen that they'll bounce in approximately the same place). These recurring 'approximate bounces' provide much higher-probability pivot points.

The moral of the story on these gaps is that, by their very nature, they offer higher probabilities of playing host to a bounce in rates, for better or worse. After all, rates only need to hit **any** yield inside the gap, as opposed to one specific yield. As long as that continues, we're range-bound. But the gap's final function is to be broken, thereby serving as an indication that the trend is moving in the direction of the break.

Subscribe to my newsletter online at: http://housingnewsletters.com/richhomeloans

Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

Rich E. Blanchard