



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: "Key Levels" Ain't Always Perfect

Bond yields hit all time lows. Then they bounced higher. Widespread discussion ensued on the next "key levels" to watch. The goal, of course, is to determine whether or not any given level of weakness is alarming or simply all part of the bigger picture strength that's been in effect for 3+ decades.

A point of order here: it would be very difficult indeed for any size of correction to be truly "alarming" in the bigger picture because the long term trend has so much room between current levels and its upper boundary. Even if we only look at 2008's tighter, more aggressive trend, we'd need to see yields well over 2.0% by the end of the year to consider the trend in jeopardy.

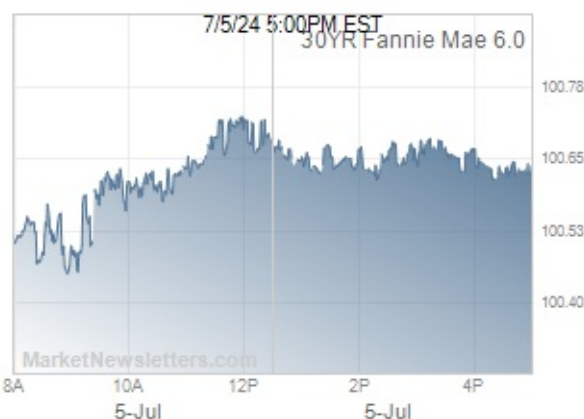


If we go back to 1988, the threshold rises to a generous 3.3%.

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	4.2954	+0.0136
30 YR Treasury	4.4890	+0.0033

Pricing as of: 7/8 3:51AM 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

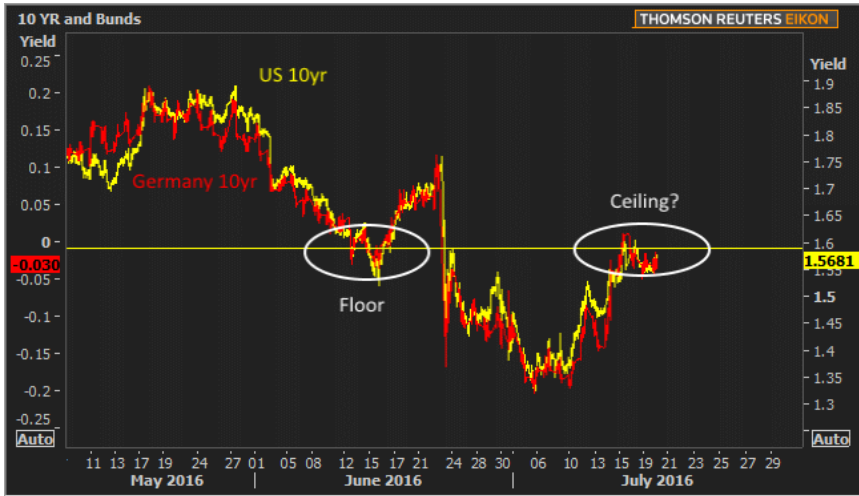


All that to say that discussions of "key levels" **should first be understood** in the context of these bigger pictures. They can all be thought of as "varying degrees of alarm." We'll always be looking at the closest few alarming levels, for logical reasons. After all, it doesn't make much sense to constantly check in with 2.0% and 3.3% if 10yr yields haven't closed over 1.6 in nearly a month.

This brings us to our **next point of order**: even when looking at nearer, more german "key levels," we always have to leave some wiggle room. Folks on TV and elsewhere (and even here, at times) have a tendency to reference an exact level. The hilariousness of taking this seriously is that you'd have to believe that a near 30bp sell-off that ends at 1.61% is somehow less significant than one that ends at 1.64%. Point being, if we're talking about a 30bp move, you shouldn't really care if 1.61 or 1.64 ends up being where things actually bounce.

Rather, the best way to look at these key levels is to simply conclude that a particular trend has either paused or ended as long as the key levels (+ or - any wiggle room, as discussed above) have not been convincingly broken. Even then, the first day of the break isn't necessarily the **end of the story**, depending on the surrounding events. We often see something like that leading up to NFP or a Central Bank Announcement (big spike in one direction that breaks key levels followed by a big bounce back).

For now, the GENERAL key level for global bond markets is "mid-June low yields." In the last chart, we can see how both German Bunds and US 10s are currently trying to avoid breaking back above those key levels. If we use the microscope, we could make a case for anything between 1.57 and 1.64 being the maximum 10yr level. Considering we've seen a lot of trading between 1.57 and 1.60 over the past few days, we'll obviously need to **wait and see** how trading plays out in a more general sense. Indeed, it seems that markets may be waiting to see what Central Banks have to say next week before making their bigger picture decisions.



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

