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The Day Ahead: Momentum Should Be in Our Favor, But Challenges Remain

One tricky thing about technical analysis (things like moving averages and other mathematical formulas applied to charts in order to get them to cough up more information about where they might be going) is that the relevance of any given technical can vary greatly depending on the circumstances. For instance, if bonds have been in a sideways trend for a few weeks, and had been trending directionally in the few weeks before that, the current sideways trend will result in many technicals suggesting that momentum is heading in the opposite direction from the trend seen in the first 2 weeks.

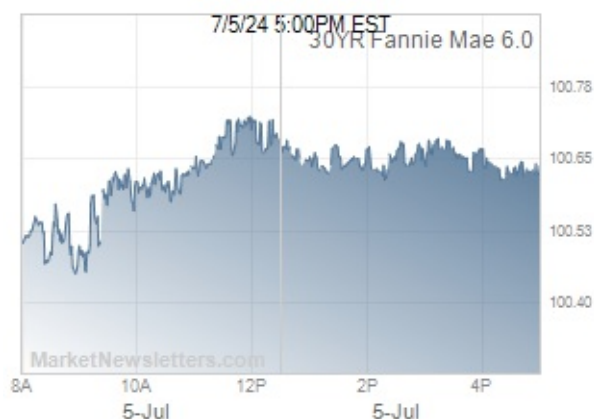
Put more simply, imagine it's July 28th and that bonds have been in a sideways range between 1.52 and 1.62 for the last 2 weeks. Then imagine they'd risen from 1.32 to 1.52 in the 2 weeks before that. The new sideways range "tricks" the technicals into thinking it's positive, simply because "sideways is better than weakness." While we can observe these same positive technical shifts, we shouldn't necessarily assume they guarantee victory.



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	4.4966	+0.0109

Pricing as of: 7/8 1:54AM 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

So if we shouldn't pay as much attention to the technicals, what do we do? As seen in the top section of the chart, the simplest chart technique of all is actually quite useful right now: draw a flat line where yields have been more likely to bounce than break, and use it as a **defensive tripwire** when yields are falling.

What does that mean? Simply this: we just had a string of good bounces at 1.59. We can now use that as our yardstick to size up any sell-off that occurs. Additionally, although it doesn't appear on this chart, there is **another important recent pivot** point at 1.54. With 10yr yields beginning the day under 1.54, we can similarly use it as a defensive tripwire that lets us know if trends might be shifting negatively.

Why all this talk about "**defensiveness**" and negativity if the Fed just helped bonds rally yesterday? Because markets are still very interested in what the **Bank of Japan** has to say overnight, not to mention the fact that yesterday's is, thus far, failing to confirm a break outside the recent sideways range (which bottoms out at 1.52-1.53, despite the fact that 1.54 has seen most of the action).

There is no significant data on tap for today, so we'll get a **mostly unobstructed** view of bond traders sorting out their positions. The only major obstruction would be the presence of "**month-end**" tradeflows potentially keeping things more buoyant than they otherwise might be.

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