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: November Begins Poorly For Bonds. Any Hope?

The Summer months sure were great for bond markets, weren't they? Massive rally in June, all-time low yields in July, and reasonable stability just off all-time lows in August.

But things have been unpleasant since then--not just in terms of weakness, but also due to volatility. Day to day moves have been bigger and seemingly more random. After failing to break back below the mid 1.5's at the end of September, 10yr yields took October as an opportunity for a fairly quick spike 30bps higher in yield. Key motivations include increased fears that the ECB will taper its bond buying program, increased certainty of a December Fed hike, and decreased market anxiety over Brexit fallout (due to decent data in the UK).

All of the above has yields on the **upper edge of a longer term trend channel** formed by the general upward momentum in place since early July's lows. As November begins, we're left with the sense that bonds called a truce, of sorts, heading into the end of October, and that weakness/selling are once again en vogue heading into the new month.

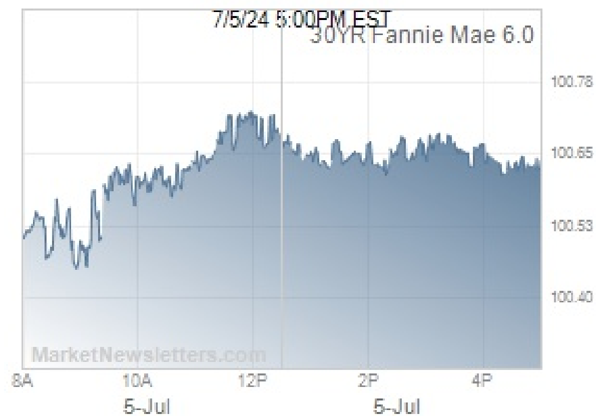
The first day of any given month can often see a bit of a glut of momentum for better or worse. Certain trading positions had to be held through month-end and now, new trading positions can be put on for the new month. Whether or not this wave of weakness continues probably has a lot to do with the market's reaction to tomorrow's FOMC Announcement. The general **expectation is for the Fed to keep rates unchanged**, but to make some verbiage change that telegraphs a December hike.

One of our best hopes for a bounce right now is that the Fed foregoes such a verbiage change. That **could be the catalyst** for bonds to bounce at the high side of the trend channel. Incidentally, this would also coincide with a bounce in 'oversold' technical territory. Bottom line, bonds are at least in a position to bounce, provided today's sell-off doesn't kick into high gear, and provided they see the right signal from the Fed.

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	4.2818	-0.0784
30 YR Treasury	4.4857	-0.0440

Pricing as of: 7/5 5:59PM 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

One final point of order: while it's fine to 'hope' for a bounce in bonds, it's also good to be realistic about what's happening here (and what HAS BEEN happening for 2 months now): bonds are in an uptrend. The uptrend is not your friend. Assume the uptrend will continue until we have sufficient evidence that it's been defeated. We have no such evidence at the moment. Period.

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