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MBS Recap: Bonds Move Right Back to Pre-ECB Stance

Yesterday we discussed the rally in bonds as a function of **short-covering**. That meant traders were in a defensive position on Tuesday night--betting on rates moving higher--and then closed those positions yesterday. Closing a short position equates to "buying." Buying results in yields moving nicely--and even unexpectedly lower.

The **problem** with short-covering rallies is that they're not indicative of organic buying demand. That means that the news or event prompting traders to move to the sidelines has to have a positive impact on bond markets or trading levels will simply move right back to where they were before the short-covering rally. In a nutshell, that was today.

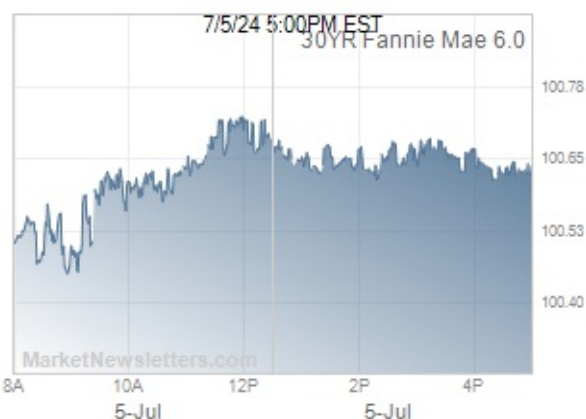


Yields never even thought about approaching some of the higher recent levels, but neither did they make a serious attempt to move below the 2.35% technical level. The ECB "tapered" (though Draghi said the word never came up) inasmuch as it announced a reduction in the pace of its asset purchases. The announcement was **bond-friendly enough** that it had fairly minimal impact. For example, German Bunds only rose to .38 from .35 at yesterday's close--fairly well in line with the .37 close from Tuesday.

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

With no more significant data or events on tap this week, all we can do is watch technical levels and wait for markets to **give us a sign**. Until 2.42% in 10yr yields is definitively broken, it continues its fight to act as a ceiling. Even if it breaks, the big-picture pivot is just overhead at 2.50%.

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