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The Day Ahead: Bonds Approaching Next Important Ceiling as Weakness Continues

The first few weeks of the new year were good for bond markets, but that dream is increasingly being shattered by the past 2 weeks. We were already relatively certain that rates could **not** make some heroic move back to pre-election levels. We knew we were looking at a temporary correction. But we didn't know how deep it would go or how long it would last. For now, it looks like that correction found its resistance at 10yr yield levels around 2.30.

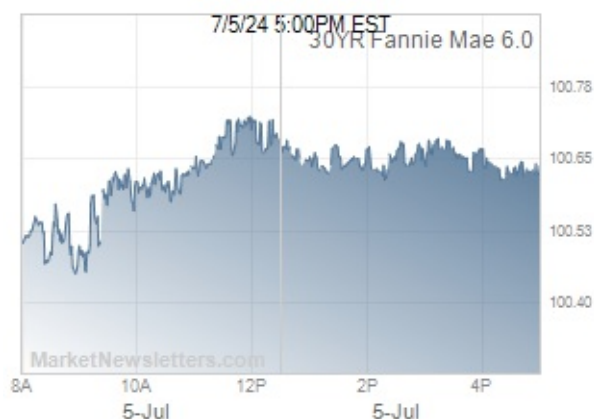
The saving grace **for now** is that a general semblance of a long term ceiling remains intact somewhere around 2.50%. Specifically, 2.52% is the most significant technical level at the moment. Beyond that, the limits of weakness were stretched as high as 2.641 in mid-December. Breaking above that would put us in a new world of pain. As it stands, we're still trying to see if we can consolidate here.

Momentum, however, is **not our friend** at the moment. It is squarely pointed toward higher rates until something changes.

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



There are no significant economic reports on tap today. The afternoon's 5yr auction is a **focal point** as it will help determine if there is still a sizeable contingent of traders interested in taking advantage of prices at the cheaper end of the recent spectrum.

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