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The Day Ahead: After a Nice Run, Bond Rally Considers Its Mortality

A few days ago, I laid out a bullish long-term case for bond markets. I could probably do something similar for a bearish case, but when it comes to bearish risks, it's easier if we forget about the longer-term and focus on short-to-medium-term trends. There will always be ebbs and flows over shorter time horizons.

The current problem at hand is the potential ebbing of positive short-term momentum that's been intact since mid-May. This most recent rally has brought bond yields to their **best levels in more than 7 months**, but it's worth noting that they've stalled out in the same technical zone that marked the last bounce, thus creating the risk of a double bounce. In simpler terms, rates have been falling steadily and they're showing signs of fatigue in the short term.

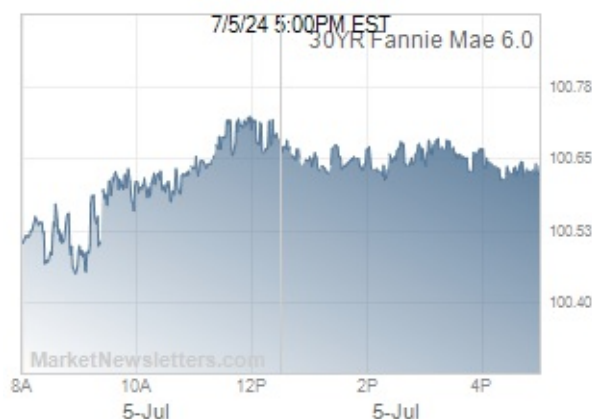


In the medium-term, there are indeed some risks that this will end up looking like a "double bounce" at the important 2.15-2.17 zone. Long-term momentum studies (such as slow stochastics on the lower pane of the chart below) suggest that this rally has **matured enough** to be at risk for such

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

bounces, even though it's not yet giving strong cues for such a bounce.



Those cues would quickly develop if we find ourselves quickly losing ground from current levels. Sure, such a bounce would **by no means** suggest bigger-picture defeat for long-term rally potential, but it could easily be the same sort of correction seen from mid-April to mid-May.

Whatever we end up seeing depends greatly on how today's key events turn out. The ECB Announcement is already out (no changes) and the press conference is underway (expected downward revisions to inflation are helping bonds get back to 'unchanged'). The **bigger potential risk** is that nothing substantive or damaging comes out of today's Comey testimony. His prepared remarks yesterday already introduced this risk. Given that bonds have positioned themselves for potential political fallout, if that fallout ends up being smaller than expected, bonds have some gains to give back.

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