



## 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](mailto:richblanchard@richhomeloans.com)

[View My Website](#)

## The Day Ahead: Pain Trade Potential on Multiple Scales

There are several definitions of "pain trade" floating around on the web, and I'm not a huge fan of any of them. The top google hit is particularly bad, despite having elements that do indeed jive with how the average trader might describe it. Ultimately, it's a concept that defies simple definitions, and ends up being one of those things that "you know when you see it." The common element in any definition should be notion of "**forced liquidation** of positions."

In other words, you had a trading idea. You put your money on the line to bet on that idea. And markets moved in such a way that you had to **cut your losses**. If a lot of other traders did the same, the cutting of losses becomes a bigger, more noticeable deal.

Pain trades can occur over **short or long time frames**. They can be small or large in scale. The 2013 taper tantrum was a pain trade for bond bulls who didn't appreciate the scope and impact of Bernanke's taper talk in late May, or even the economic data earlier in the same month (super strong jobs report reversed 2 months of terrible data that ostensibly kept the Fed's tapering whispers from growing louder).

The **current pain trade** potential begins with the theme that I've mentioned a few times now. Specifically, it makes good sense for traders to take opportunities to push rates **HIGHER** (I know... how dare I...) ahead of one of any number of events.

In the shortest term, it could be **Friday's CPI**. A strong number would reinvigorate the case for the Fed rate hike timeline and the reinvestment tapering plan. A weak number would have to be pretty darn weak to derail the tapering plan. As such, like last week's NFP pre-trade, the risks are asymmetric. We're more likely to move higher from Monday's yields after Friday's data. So traders take Tuesday-Thursday to move yields higher. They're getting ahead of the move.

**Enter the pain trade.** In this case, it was yesterday's North Korea headlines. All these traders have "**short positions**" set up to bet on Friday's CPI. They're better rates move higher. They want to push rates higher. Then along comes the North Korea headlines and creates enough of a buying spree that the short positions are suddenly faced with "stop-loss" levels. They're forced to buy to cover their short position. Those stop losses may be at various levels between 2.28 and 2.22, but the more shorts that cover, the lower yields go

## MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.61	<b>+0.22</b>
MBS GNMA 6.0	100.74	<b>+0.21</b>
10 YR Treasury	4.2818	<b>-0.0784</b>
30 YR Treasury	4.4857	<b>-0.0440</b>

Pricing as of: 7/5 5:59PM EST



## Average Mortgage Rates

	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.03%	<b>-0.05</b>	0.00
15 Yr. Fixed	6.44%	<b>-0.01</b>	0.00
30 Yr. FHA	6.50%	<b>-0.05</b>	0.00
30 Yr. Jumbo	7.24%	<b>-0.01</b>	0.00
5/1 ARM	7.05%	<b>-0.02</b>	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.95%	<b>+0.09</b>	0.00
15 Yr. Fixed	6.25%	<b>+0.09</b>	0.00
<b>Mortgage Bankers Assoc.</b>			
30 Yr. Fixed	7.03%	<b>+0.09</b>	0.62
15 Yr. Fixed	6.56%	<b>+0.09</b>	0.54
30 Yr. FHA	6.90%	<b>+0.11</b>	0.95
30 Yr. Jumbo	7.11%	<b>-0.01</b>	0.50
5/1 ARM	6.38%	<b>+0.11</b>	0.54

Rates as of: 7/5

and the greater the chances of the next trader in line seeing their stop-loss level get hit.

As such, it's not too surprising to see a quick flush down to 2.22% to start the day. Moving lower from there would trigger **bigger picture short-covering** among traders who took out short positions stretching back to June's low yields. That could easily set us up for a challenge of 2017's low yields, but it would have absolutely zero staying power without a WEAK CPI report on Friday. Spikes to lower yields are great lock opportunities in the short term.

The larger scale pain trade potential concerns the motivation to push yields higher ahead of Jackson Hole at the end of the month, and higher in general through the end of the year. We'll be discussing these by and by--especially if they end up materializing.

Subscribe to my newsletter online at: <http://housingnewsletters.com/richhomeloans>

## Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

Rich E. Blanchard

