

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
richblanchard@richhomeloans.com
View My Website

The Day Ahead: Striking Similarities in Trading Patterns Show Year-End Exodus

As we discussed yesterday, the flattening of the yield curve has been a dominant trading theme in 2017. It's also been a "crowded trade" for bond market participants, much in the same way that buying bitcoin was a crowded trade on Dec 5th-7th or that buying stocks has been since March 2009. In other words, it's something "everyone was doing" even though there are **inherent risks** in making the same trade that a majority of other traders are so clearly making.

The past 3 days show the byproduct of **"crowded trades."** The "flattener" (traders betting on 2 and 10yr yields moving closer together) has quickly been unwound, meaning traders are exiting those positions en masse. This can be seen most easily in the green line moving higher in the chart below .

Incidentally, the movement has taken **eerily similar** shapes at eerily similar times of day. The timing coincides with the unofficial open/close hours for bond markets (based on the 8:20-3pm ET pit trading hours at the CME). This repeated, linear exodus is exactly what the focused unwinding of a crowded trade looks like. It's why long-term bonds have lost ground over the past 2 days even though stocks have sold. It's why the most abject leg of the sell-off stopped **perfectly** at the 2.47% technical ceiling.



MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

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Be **SURE** to note that the sell-off in the curve looked very similar on MONDAY of this week. And then be sure to remember that Monday only saw a modest increase in 10yr yields. **IT'S THE CURVE TRADING** that shows the exodus, because the exodus is from a curve trade (as opposed to a simple "buy 10yr notes" trade). The fact that it existed in almost identical fashion a day before the big sell-off is another piece of evidence that lets us know what the past few days have been all about.

What are the implications for today? So far, so good. In the first hour, we haven't seen the same pattern reemerge. Neither did we see the same magnitude of pattern in yesterday's trading. The unwinding of the curve trade may be fizzling out, and that will make it easier for longer-term bonds to attempt to hold their ground around 2.5% (2.52% is the important overhead pivot point).

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Rich E. Blanchard 

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