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The Week Ahead: Light Data, Glimmer of Hope, and a Word of Caution

Don't get too excited. Despite a few close calls and false alarms, bonds managed to close below last Tuesday's highs for three days in a row. Now they begin the 4th day in slightly stronger territory. To an optimist's eye, the bond market is building a case for a **ceiling bounce**.

One way to approach such potential bounces is to consider the implication of technical analysis. One of the more mainstream technicals for this purpose is the Bollinger Band study. It consists of 3 lines. The middle is typically set at a 21-day exponential moving average (or a 20-day simple moving average), with the outer bands typically set 2x standard deviations higher and lower.

This results in a moving range that ends up encapsulating most of the trading that takes place in any given security. That's useful because it helps isolate and analyze breakouts. In other words, prices/yields **don't** break the outer Bollinger Bands very often. When they do, one thing tends to happen more frequently than another.

In the case of a break above the upper band, that "one thing" is what we're hoping to see now. Simply put, when yields have been hitting or breaking the upper Bollinger Band for several days, the first day spent noticeably below the upper band tends to serve as the start of a **positive bounce**. The signal is made more meaningful when other technicals (like the fast and slow stochastics in the lower section of the chart) are also potentially bouncing.

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



As you may have guessed, however, **there's a catch**--several actually. First of all, technicals aren't magic. There's never any way to guarantee that the future will unfold according to probabilities. This stuff doesn't always pan out.



Even if this **doesn't** turn out to be a false positive, there's really no major implication as to how long the bounce would keep yields under current levels. In other words, the signal could accurately predict that yields remain lower tomorrow (or for a few days beyond) only for a new sell-off to take shape in the near future.

As has been the case since late December, the best threshold we could hope to cross below would be 2.42% in 10yr yields. That's fairly out of reach this morning, but that's where we'd need to go in order for this fledgling rally effort to become meaningful in the bigger picture. In the short-term, any sustained break below 2.52 would be a good step in the right direction. **Conversely**, a failure to break below 2.52% would quickly suggest the 'false positive' scenario discussed above.

Economic data is light this week, with no heavy hitters on tap.

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