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The Day Ahead: Temporary Weakness Or Bigger-Picture Resistance?

Despite being in a narrow range in the bigger picture, 10yr Treasury yields have generally been moving moderately higher since April 21st. MBS have managed to avoid a similar trend, but they haven't managed to break above their **best** levels from the same week. To make matters somewhat **more disconcerting**, they just broke below their supportive trend-line from the past 2 weeks. Are we witnessing a bigger picture shift or just some temporary trepidation?



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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As we discussed yesterday, the notion of "**supply**" is central to the current bout of bond market weakness. Supply can take many shapes. The most directly relevant form is that of new Treasury debt hitting the market. While we don't have any new auctions this week, there is the matter of Treasury's quarterly refunding announcement coming up tomorrow morning. Treasury has already announced its estimate for the quarterly total--a record $3 trillion (2.999 to be exact). Tomorrow will specify how that borrowing will be broken down, including the allocation of new 20yr Treasury bonds. From there, any conversation about the need for additional fiscal stimulus in response to coronavirus only implies additional Treasury supply.

Slightly less relevant, but more immediate is the ongoing corporate bond supply situation. There's a bit of a perfect storm at the moment in the market for investment grade corporate debt. The **stormy ingredients are as follows:**

1. All-time low Treasury yields (the index for corporate borrowing rates)
2. The ability to use investment grade debt as collateral with the Fed
3. A hugely and uniquely challenging economic environment resulting in a legitimate need for operating cash

All of the above has resulted in absolutely massive corporate debt issuance. This puts **upward pressure** on Treasury yields for a variety of reasons, but the only reason to worry about on any sort of ongoing basis is the overall contribution to supply (learn about other reasons in THIS PRIMER).

Despite all those reasons to be cautious, we should keep a few counterpoints in mind. First off, the market is **well aware** of the massive influx of bond/debt supply, both from Treasuries and corporates. If there were true cause for alarm, we'd be seeing more evidence of that already. The second counterpoint helps explain the existence of the first. Simply put, the full extent of the pandemics negative economic impact has yet to be felt.

Sure, many economic reports have weakened dramatically, but traders know it could just be the tip of the iceberg. As such, it makes good sense for bond markets to be **biding their time** until getting more clarity on the economic situation vis-a-vis the coronavirus situation and economic reopening process. What does "biding time" look like?

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Bottom line: yes, things can get a bit dicey over shorter time horizons, but save the bigger levels of concern for a breakout of these bigger-picture patterns.

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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.

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