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The Day Ahead: Why We're Watching Treasuries

The market reaction to coronavirus made a mess of the relationship between Treasuries and MBS (and between MBS and mortgage rates for that matter). These disconnections can happen from time to time and when they do, we stop following trends in Treasuries and focus on MBS. In fact, the disconnection between MBS and mortgage rates forced me to **stop following MBS** except inasmuch to be on the lookout for a reconnection.

While we may see a bit of small scale disconnection between Treasuries and MBS in the short-term, it won't be big enough to suggest we tune-out Treasuries again. The time has clearly come to get back to the business of following Treasuries, even though our focus is on mortgage rates. If you haven't read my primer on this before, here's why we do that.

And if you prefer an entire primer in one chart (mostly), here you go:



The blue line is the MBS current coupon yield (left axis) and yellow is 10yr yield. It's hard to see the most recent disconnection, so **let's zoom in.**

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.04	-0.39
10 YR Treasury	5.0865	+0.1005
30 YR Treasury	5.4228	+0.0671

Pricing as of: 11/12 11:41AM EST



Average Mortgage Rates

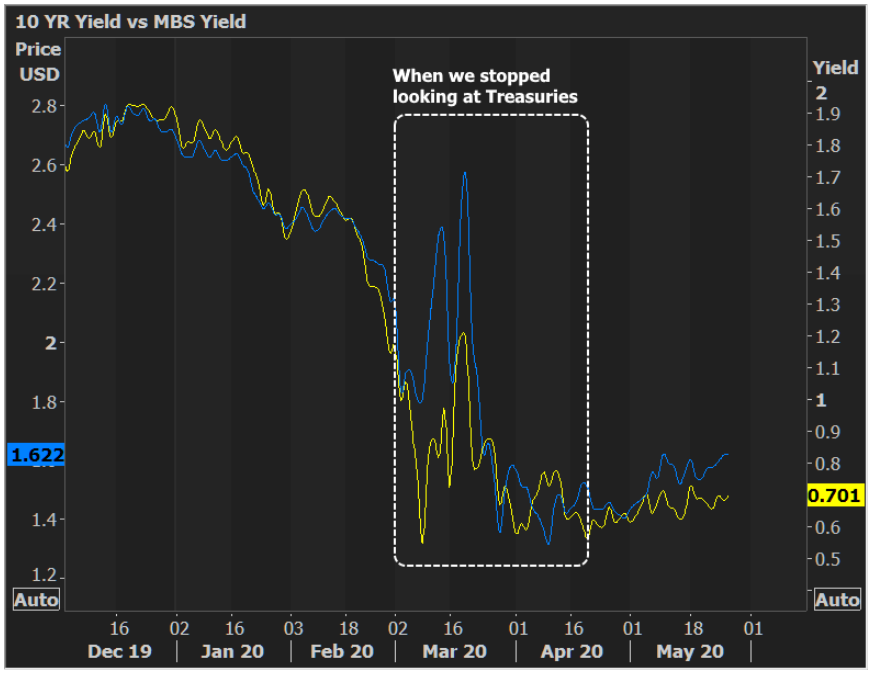
	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

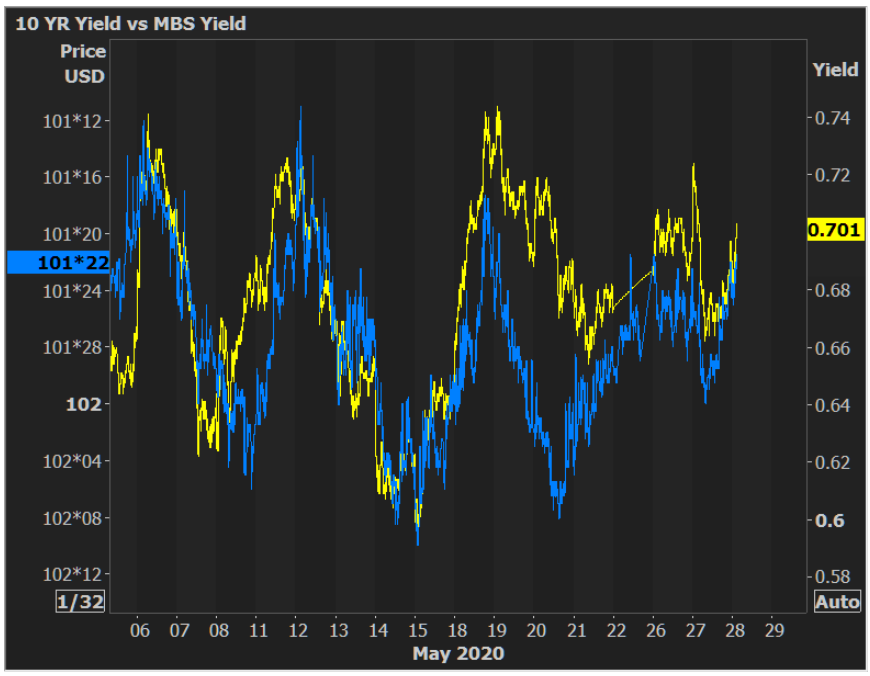
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To be clear, we're not concerned about the gap between the lines most recently. The y-axis doesn't matter. The lines will adjust depending on the time frame being viewed. The **correlation** is what matters. For instance, if we zoom in even more (keeping the same visual distance between highs and lows on the chart), the gap disappears and the correlation becomes even more noticeable.



All that to say, again, it's clearly time to start paying attention to Treasury trends again. So **what do those trends suggest?** Simply put, we're still in the uptrend we've been following, but yields have shown more and more resilience--perhaps even an inkling of bullishness that hints at a friendly breakout.

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The caution here is that this would be a very weak reversal. The stochastic at the bottom of the chart would need to be reversing well above the oversold line in order for the signal to be stronger. As it stands, this is **only slightly more promising** than neutral/incidental. But it's better than a sharp stick in the eye!

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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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