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MBS Mid-Day: Volatility Increases Heading Into Fed Day

With the much-anticipated Fed rate hike only 2 days away, volatility continues to build in financial markets. It's not that investors **disagree** about the outcome of the Fed meeting. Widespread consensus is for a quarter point hike. Less certain is how other investors are planning on trading the event.

This sort of uncertainty leads to "herd mentality" and the occasional stampede. Friday was such a day where a few **synergistic** events came together for the benefit of bond markets. At the time, I pointed out that one of those events was the so-called "short base." This refers to the portion of bond traders who are betting on rates moving higher. They might have several different positions, but if more of their bets are for higher rates, they're part of the short base.

When events conspire to push rates lower, members of the short base increasingly begin covering those bets (by buying bonds). This snowball effect factored into the size of Friday's rally. When such snowballs get rolling, they tend to flush out far more short positions than would otherwise have been covered that day. This leaves bond markets imbalanced. There is more selling demand as investors who were just **forced out by the snowball** look to get **back** into their previous positions. If those previous positions were "short," you get days like today where the snowball rolls in the other direction.

Of course there's more to it than this tradeflow dynamic. If you'd rather correlate today's bond market movement with overt events, we can point to the big bounce in oil prices. In so doing, we'd be sure to observe that part of Friday's bond market strength came courtesy of the **uncertainty** surrounding the oil price drop. If today's bounce in oil looks like an attempt to put in the near term lows, bond markets would understandably want to head higher in yield.

Whatever the case, the selling is rather sharp. 10yr yields are **more than 9bps higher** and Fannie 3.0s are almost half a point lower. All that having been said, this is the sort of volatility we should continue to expect, both before and after Wednesday's Fed meeting.

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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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