



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
 Fax: 214.975.2874
richblanchard@richhomeloans.com
[View My Website](#)

The Day Ahead: At Risk of Confirming Yesterday's Fears

- Yesterday's fears: that the gains were just a byproduct of trading positions
- Particularly, bond bears were covering bets on higher rates
- Traders getting neutral ahead of tomorrow's ECB Announcement
- Today: yet another day without any big-ticket economic data
- Yet another day at the mercy of 'trade flows.'

What is a trade flow? Trade flows refer to the broader phenomenon of market participants opening and closing long or short positions. Take, for example, an investor who opened a new "short position" (selling bonds) as rates began rising. When rates break higher through a certain target and then fall back below that target, the trader would likely "cover" or buy back the bonds they sold short when rates were lower. In this sense, "short-covering" is "profit-taking." This is one way that trade flows can step in to stop a sell-off. Of course that same investor would also likely have a stop-loss even if rates began moving lower immediately (to prevent further losses, since the investor is losing money as rates move lower).

Some combination of that short-covering scenario was in play yesterday, and in a massive way. JP Morgan puts out a widely-followed weekly survey on dealer positions in US Treasuries. This week's showed the biggest shift to short positions since Nov 2015. In other words, a lot of traders were **betting on higher rates** (and thus, in a position to 'cover' if rates moved lower). So when Chinese data and a freakishly strong Japanese bond rally conspired to push Treasury yields lower, the short-covering began.

Unfortunately, that's **not** an organic source of momentum for bond market rallies. It's more like an epilogue to the story of weakness that bonds have been telling since February 12th, or the shorter, scarier story that was told from March 1st-7th.

Bottom line: yesterday had all the trappings of a bond market that was simply finding more neutral ground ahead of tomorrow's ECB announcement. With Draghi expected to announce "something" (no one knows exactly what it might be), investors are doing their best to be ready for any reaction. Either way, when a big central bank will potentially make a big change, the movement can be fast and volatile.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.59	-0.02
MBS GNMA 6.0	100.77	+0.04
10 YR Treasury	4.2876	+0.0058
30 YR Treasury	4.4768	-0.0089

Pricing as of: 7/8 11:52AM EST

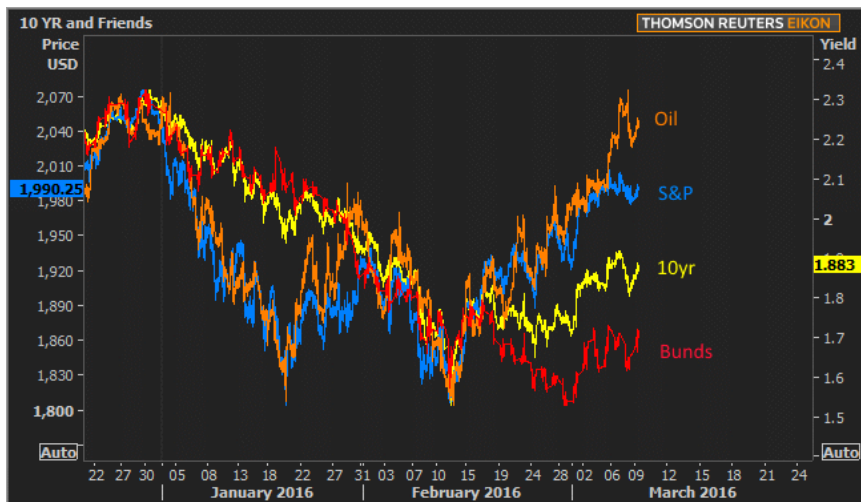


Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.01%	-0.02	0.00
15 Yr. Fixed	6.41%	-0.03	0.00
30 Yr. FHA	6.48%	-0.02	0.00
30 Yr. Jumbo	7.22%	-0.02	0.00
5/1 ARM	7.03%	-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: 7/8

For what it's worth, trade flows are far from the only story in play. We are still caught between the **opposing forces** of the "risk-on" movement in stocks/oil and the European bond market rally fueled by hopes of a bond-friendly ECB announcement tomorrow (not to mention the general European economic malaise that necessitates such measures).



Subscribe to my newsletter online at: <http://housingnewsletters.com/richhomeloans>

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.

Rich E. Blanchard

