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The Week Ahead: Getting Closer and Closer to Big-Picture Decisions

- Bonds have stayed strong, despite apparent headwinds
- Technicals suggest we're due for a bounce
- Such a bounce could still be part of a broader, positive theme
- We could be waiting a while to find out if it's negative

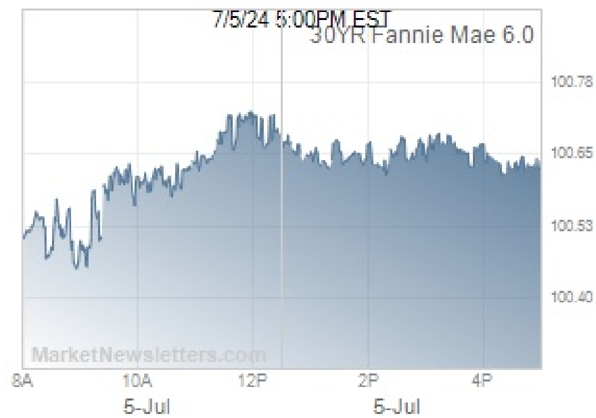
Welcome to the 3rd week of May. Bond markets are faced with a **fairly tough decision**. They'll either have to begin the process of 'correcting' toward higher yields, or they'll have to break some fairly serious lines in the sand.

The lines in question have to do with the "consolidation" trends we've been tracking in 2016. There is a short and a long term version seen in the chart below.

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	4.3140	+0.0322
30 YR Treasury	4.5069	+0.0212

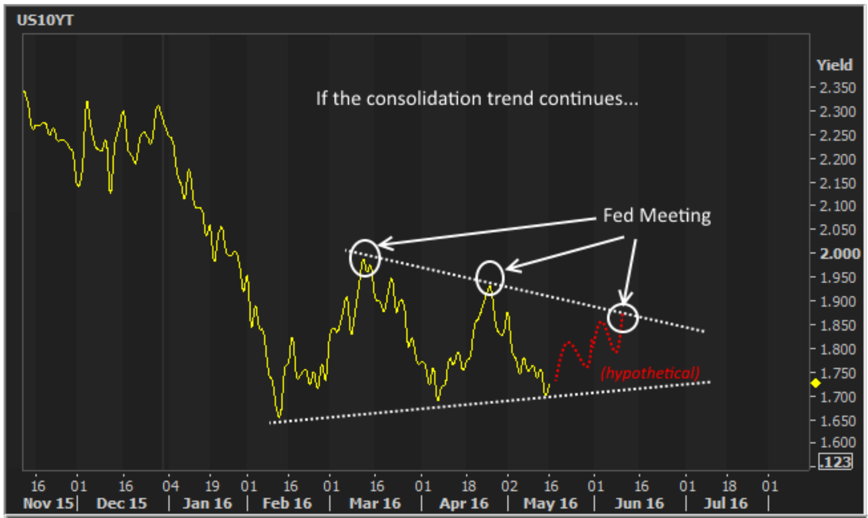
Pricing as of: 7/8 5:52AM EST

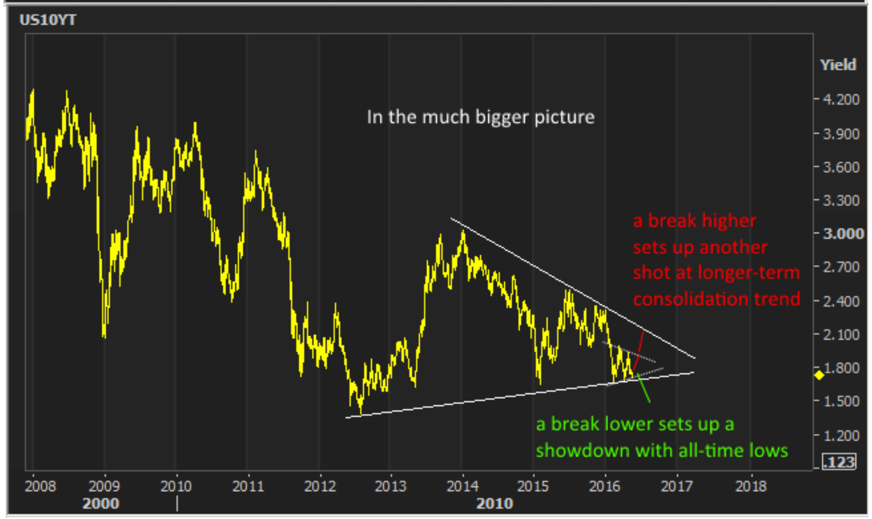


Average Mortgage Rates

	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 the chart shows, the cadence of the short term (upper) portion of the chart suggests we're at **some risk of bouncing higher** in the short term. Until proven otherwise, the default "bad" scenario would be a move to revisit the longer term boundaries in the lower section of the chart. This would manifest itself as another run toward the 2% range in 10yr yields, if it happens.

This week's data has some chance to help inform this struggle. The first significant data of the week arrives Tuesday morning in the form of the Consumer Price Index. Then on Wednesday afternoon, we'll get the minutes from the most recent Fed meeting, which could shed light on the **Fed's rate hike prospects in June** and beyond. This is a risky piece of news for bond markets because the takeaway from that meeting was "bond-friendly." As such, if the Minutes bring any new info to light, it's more likely to be unfriendly to bonds (i.e. painting a picture of the Fed being closer to hiking rates again than the late April Announcement suggested).

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