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The Day Ahead: Increasingly at Risk of a Bad Bounce in Bonds

- "Bad" is a relative term, but momentum may be shifting
- Today's trading will be pivotal in determining that
- The stakes are not too high, for now

Bond markets have been enjoying a good run since the last Fed meeting, with rates moving **almost exclusively lower**. In fact, we haven't had one single instance of rates moving higher for more than one day at a time. To make matters even less threatening, mortgage rates have been even more stable than normal versus 10yr Treasuries--a fact we can attribute to the impact of [corporate bond issuance](#) on Treasuries as well as the typically sluggish response to market movement often seen when rates are near long-term lows (in other words, MBS prices are moving less than Treasuries, and mortgage rates are moving less than MBS prices).

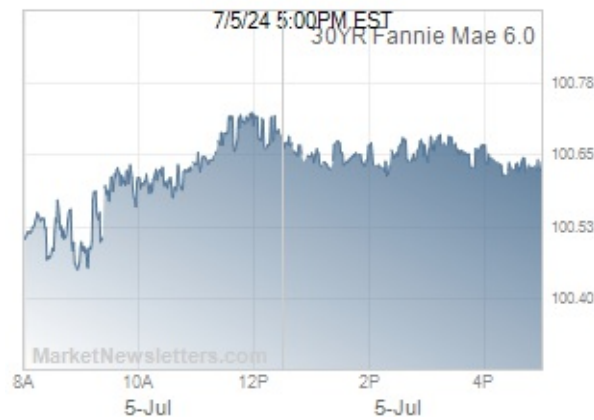
Whether or not today's bond market movement spills over to rate sheets much, we're **still at risk** of seeing the first consecutive "red" day since April 26th. Even if it doesn't push rates too much higher today, the implication would be a shift in momentum that almost certainly would add an eighth of a percent to 30yr rates in the best case scenarios.

The shift in question is quite simple. We're talking about another bounce inside the triangular consolidation pattern that has guided yields for most of 2016. You can see that triangle and the current potential bounce in the teal lines below. I've also included stochastics--momentum indicators that unsurprisingly confirm that momentum may be shifting. Do keep in mind though: the momentum charts are using today's current yield as a closing yield. That means that if we did manage to end green today, the technicals **wouldn't be quite so clear** in suggesting a momentum shift.

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



Today's data stands a reasonable chance to have an impact, considering the importance of inflation to the Fed rate hike outlook.

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