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The Week Ahead: Bonds on The Ropes as Month Ends and Data Hits

- Last week's moderate resilience could have been temporary due to 'month-end'
- This could also help today, to some extent
- If it doesn't, it's the first clue about a potential break of the long-term range
- If data confirms that break, Fed rate hike fears will increase and bonds won't be happy

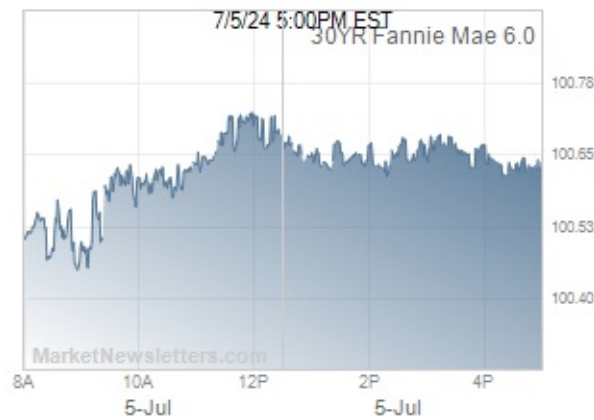
The holiday-shortened week begins on a bit of a **gloomy** note, both because of where bonds were already trading at the end of last week as well as the moderate weakness seen in the overnight session. Any push toward higher yields this week will increasingly cast a vote for bigger picture losses as weakness would confirm a break out of the triangular, consolidative range seen in the chart below (teal lines).



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	4.3150	+0.0332
30 YR Treasury	4.5088	+0.0231

Pricing as of: 7/8 5:50AM 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

Not only would this break the trading range in yields, but it would also put an end to the similarly consolidative pattern in longer term momentum. Fueling the fear is the fact that trading positions can often gain short term momentum as one month's trading ends and the next month's begins. If this week's busy economic calendar also happens to suggest bond market weakness, **things could get ugly.**

Now, this fear isn't necessarily destiny. To be sure, there are plenty of reasons to be bullish about the longer term outlook for global rates. But we have to respect the fact that temporary moves can still run counter to the longer term prevailing trend, and they can last longer than we might like when it comes to rate lock strategy. Until the threats to the range subside, that **strategy should probably remain 'defensive'** as opposed to trusting that the range will be there to provide yet another bounce toward lower rates.

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