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The Day Ahead: Another Way to Look at The Range; Why Did MBS Tank?

First off, let's cover the huge drop in MBS prices overnight. Fannie 3.0s, for instance, closed at 103-29 and then began today at 103-23--all this despite a decent overnight rally in Treasuries. Not to worry... **this is due to "the roll."** The "MBS Prices" you see on the screen at any given moment are dictated by the MBS coupon that's closest to retirement (or 'settlement,' if you prefer).

August coupons are retiring today, and their trading cut-off was yesterday. That leaves September coupons to carry the banner of "MBS Prices," and September coupons have always been at lower prices than August.

In fact, **every** trailing month is **always** a lower price than the previous month. This has to do with the fact that the trailing month makes investors wait that much longer to receive their first payment. The closer we get to settlement, the more MBS prices will gradually rise--all other things being equal.

In other words, if nothing ever changed in the marketplace besides the MBS settlement process, then the trailing month would slowly move up to the price of the most-recently-retired month by the time it retired, itself. The bottom line for originators is that **"the roll" has no effect on pricing** because lenders know all about this process and have actually been trading those trailing month coupons in order to manage parts of the pipeline that won't be closing in time to get in on the current month's delivery.

Moving on... Let's take a look at the **bigger picture trend** in bond markets. We've been talking about a horizontal range, but today's overnight gains, combined with a few of the recent intraday movements, put us in a position to consider the following triangular/consolidative range. The upper line is still horizontal, resting along the same upper range boundary we've been following. But the lower line is ascending (higher lows). Today's overnight gains put us right on the edge of breaking this consolidative trend, which would be a positive technical development (aka "bond market gains with slightly more significance than any old random gains").

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

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There is no significant economic data on tap today, but there is a **significant Treasury auction** (10yr) at 1pm. If it goes anything like yesterday's 3yr auction, it will be rousing confirmation of global demand for US debt. It would also be the first stage in confirming a break below more important trend boundaries at 1.52%.

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