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The Week Ahead: Labor Day Week, With One Small Exception

Normally, weaker readings on nonfarm payrolls result in bond market gains. While that was initially true on Friday, in less than 30 minutes, bonds were vaulting to the weakest levels of the day. They remained near the top end of the recent range for the rest of the day. **What's up with that?!**



We know that traders were disproportionately "long" in 10yr futures as of Tuesday, based on Friday's Commitment of Traders report. That means they were betting on rates moving lower. If those traders were to **close** those positions, it would result in exactly the sort of sell-off we saw. Furthermore, if those traders were going to close those positions ahead of a 3-day holiday weekend, that would have been the time of day to do it.

With all of that in mind, the **most optimistic hope** is that Friday's sell-off was simply a closing of positions among those traders who were long Treasuries. But there's a pessimistic way to look at things as well. Specifically, notice that Friday's gains were only able to match the previous low yields in the 1.55+ zone. This zone served as a sort of floor of resistance for the entire week. But why would bonds bounce off a resistance floor after a weak NFP?

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

Rates as of: 11/10

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The answer could be **depressingly simple:** perhaps NFP was seen as "not weak enough" to materially change the Fed's rate hike outlook. While I don't think a strong NFP could have confirmed a rate hike, an exceptionally weak NFP could have precluded it, and this NFP definitely wasn't weak enough to do that. After all, just 2 weeks prior, the Fed's own Lockhart said that payrolls in the 150k neighborhood would be encouraging for the economy.

The focus this week will be on **Thursday's announcement from the European Central Bank.** Other than that, this week is really just an unofficial "Labor Day Week," without any significant data or events on tap.

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