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The Day Ahead: Bonds "Technically Ready" For Good News Any Day Now

I generally **don't** like the terms "**oversold**" (consistent weakness) and "**overbought**" (consistent strength). I think they lead to false confidence in some particular outcome. For instance, there's a tendency to think something must rally if it's been oversold and that it must sell-off if it's been overbought. This is no more true than putting a hyperactive dog on a bungee cord leash and expecting him to go bark through the fence on the east side of the yard simply because he's been stretching the leash to bark through the fence at the west side of the yard.

To be more germane for markets the bungee-leashed dog analogy should specify that, over time, the yard in question gets roughly equal distractions walking along the east and west fences. As such, an observer has a leg to stand on in making a case for a **snap back to the other side** of the yard. But of course that assertion is predicated on the existence of something sufficiently interesting walking by the opposite fence.

In other words, bond markets have had **plenty to bark at** on the "oversold" side of the fence. In fact, I've never seen longer term momentum (as measured by slow stochastics) look so consistently overbought for so long. That's obviously been a very bad sign in retrospect, and to reiterate the whole point of this post, the magnitude of the badness is no promise of goodness. But here's where overbought/oversold can actually become relevant:

Once we see several different technical measurements of momentum **SHIFT OUT** of 'oversold,' then we can expect or hope for a better than 50% chance of a move toward 'overbought' levels. With a few more days of gains, **we'd be at such a tipping point** in the current scenario.

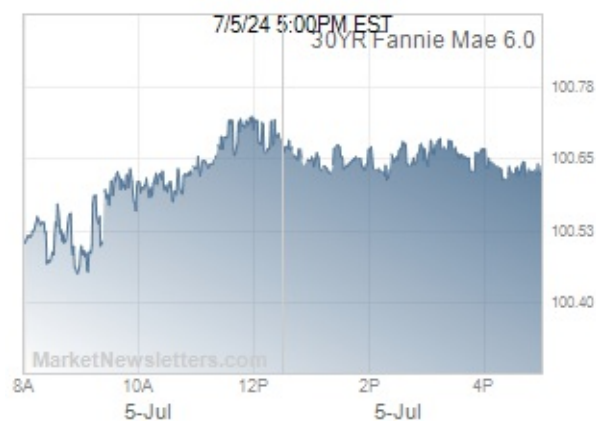
As seen in the chart, fast stochastics (the blue and red lines) are **already** moving out of oversold territory. They're the early indicator though--and the most **imperfect**. We still need slow stochastics (green/teal lines) to move back across its midpoint and MACD (bottom of the chart) to cross below its midpoint. As a few of the highlighted "false positives" suggest, merely getting a few of these signals is **no guarantee**.

That said, if we get all the momentum indicators saying the same thing and when we consider that technical shift against the fact that things have been so heavily oversold recently, it's **not unreasonable** to hope for a bit more follow-through than we saw during the last official momentum shift in March

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	4.2818	-0.0784
30 YR Treasury	4.4857	-0.0440

Pricing as of: 7/5 5:59PM 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

2016. But even that 30bps would be a welcome improvement.



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