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# The Day Ahead: Bonds Threaten to Hit Weaker Momentum Button, but Waiting For Fed

Heading into the end of March, markets were generally preoccupied with the healthcare drama in congress and bond yields were generally consolidating into a range just under 2.42% in terms of 10yr yields. When bonds move sideways after rallying for several weeks (as they had since March 15th), momentum indicators begin to **suggest a bounce** (toward higher yields) is in the works.

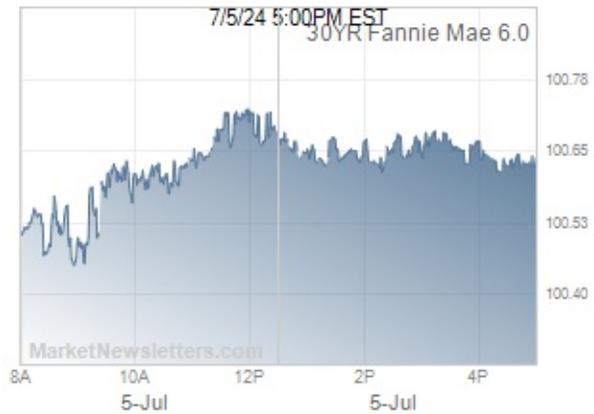
That potential bounce can be seen as the very slight break above the lower line in the "fast stochastic" section of the following chart. The negative momentum indication wasn't really able to be questioned until Monday's super strong rally, but as we discussed, there was **always a risk** that Monday would simply be driven by a quick, one-time adjustment for "new month" tradeflows. For now, that indeed seems to be the case.



## 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
<b>Mortgage News Daily</b>			
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
<b>Freddie Mac</b>			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	0.00
<b>Mortgage Bankers Assoc.</b>			
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

Whether or not this iteration of the potential momentum shift materializes into something more sinister likely depends on the rest of the week's economic data and especially today's FOMC Minutes. Indeed, ADP employment is already out and the huge beat--263k vs 187k--didn't do **nearly as much damage** as we might have expected. This supports one of two conclusions. Either negative momentum isn't chomping at the bit as much as **technicals** suggest, or traders are simply waiting to see what the Fed has to say at 2pm.

With respect to the Minutes, keep in mind that this is simply a more detailed account of the meeting that took place in mid-March (the one that produced the rate hike as well as the tamer rate hike forecasts that helped bonds rally). In this release of the Minutes, we'll get our **first look** at the Fed's new fan charts which may or may not add clarity to the rate hike outlook.

In addition to the fan charts, more than a few market participants are expecting the Fed to have more actively discussed the prospect of tapering "**balance sheet reinvestments.**" Given what we know about the Fed's communication strategy, the fact that several Fed speakers have mentioned those reinvestments in the past few days all but guarantees we'll see the topic come up in the Minutes (this Fed really doesn't want to surprise markets!).

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