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The Day Ahead: Levels to Watch as Bonds Continue Consolidating (Hopefully not Correcting)

"Consolidation" has a bit of a different connotation when it comes to financial markets (as opposed to the dictionary definition of "the process of making something stronger or more solid"). As far as financial markets are concerned, consolidation is what follows a sustained move in certain direction. This tends to take the shape of **"correction"** (a push back in the other direction) at first, but can be considered a consolidation if the push doesn't take the security in question too far back in the other direction.

In that sense, **"a push back in the other direction, but not too far"** could be seen as legitimizing or strengthening the case for trading levels having just reached whatever levels the recent trend helped them reach. If we think of a mountain climber who makes steady progress but then pauses to hammer in some pitons (the little nail/clip thingies) and attach some clips, and in so doing, loses a bit of altitude, that would be similar to the dictionary definition of consolidating one's position.

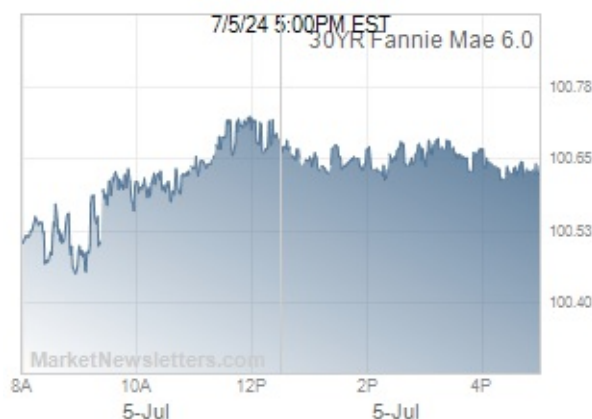
It's the **same story** for bond markets. If we've been rallying fairly strongly and then take a break to re-test some of the recent safety nets, that weakness wouldn't really be weakness. Rather, we'd simply be consolidating ("making stronger") our position and legitimizing much of the recent rally.

At some point in the "push back" there's a **level of weakness that we should be concerned about**--a shift from healthy consolidation to worrisome correction. In the current context, we have several overhead pivot points and trendlines that can act as warning signs of such a correction. As the chart suggests, the lowest level that would present any risk today is 2.27%. With 10yr yields beginning the day around 2.24%, we're still consolidating, but we should be on guard against the possibility that we could begin "correcting" if these key levels are broken.

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



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