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The Day Ahead: Bonds Try to Defend Ceilings Amid Limited Data

While there are certainly some weeks with far fewer economic reports on tap, the week ahead is still on the light side when it comes to the data that has been **moving markets** of late. A few of the reports (like GDP and Durable Goods, for instance) have historical street cred, but they're not in the same league as the key inflation metrics at the moment.

It was the Consumer Price Index (CPI) that served as the last major market mover in terms of economic data (Friday before last). That instance of CPI is **still important** to the current theme, because it gave bonds an opportunity to more forcefully shift into a more positive stance, yet the entirety of the following week (last week) was spent moving into weaker territory.

That first 4 days of last week **could** have been seen as a sign that bonds just weren't ready to commit to more gains and that they were taking time to consolidate before fully reversing the negative trend that lasted from early September through early October. But this past Friday **crushed** those hopes.

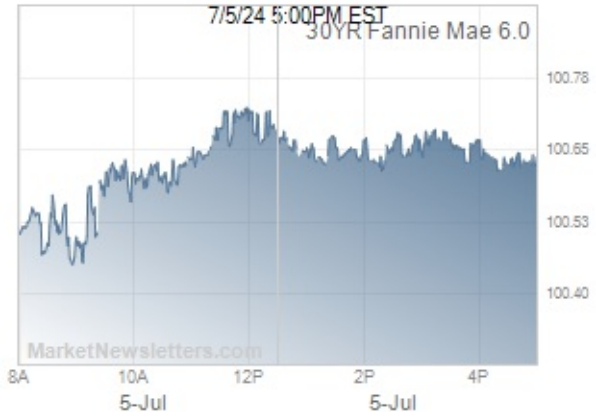
Whether or not it was a surprise to political analysts, financial markets were **clearly surprised** to see the Senate pass a budget resolution paving the way for a tax reform bill that would only need 51 votes. Bonds had their worst day in nearly 3 months, and the positive technical trends we'd been following were suddenly turned on their heads.

10yr yields quickly found themselves defending against a break above 2.40%--an important technical level for much of 2017. Momentum technicals took decisive turns for the worse in the short term. This can be seen in the blue/red lines moving quickly higher in the following chart. Longer-term momentum technicals haven't **confirmed** the negative move yet, but they're definitely **heading that way** (grean/teal lines moving higher after failing to make it past the middle dotted line, and the yellow bars at the bottom of the chart getting close to moving back above the zero line).

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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The bottom line is that although the week is beginning with modest resilience, the underlying trend remains **unfriendly**. It will take a serious, sustained rally to change that outlook in the near-term. I'd personally want to see 10yr yields break below 2.28% this week before declaring the death of that uptrend.

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Rich E. Blanchard

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