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The Day Ahead: When Will The Bad Times Be Over?

Yesterday afternoon's MBS Recap is a good read if you want a longer and more philosophical version of what I'm about to write (click the link to read it). The **short version is quite simple**. Bond yields are in an uptrend, and they'll be in an uptrend until they're not in an uptrend any more.

We can look at the **broader uptrend** that's been intact since early September combined with the potential bounce that took place earlier in October to get an idea of how much positivity can occur inside the confines of the uptrend. Or we can simply keep an eye on various technical indicators, which will generally give us just as good of an idea of potential shifts in the trend.

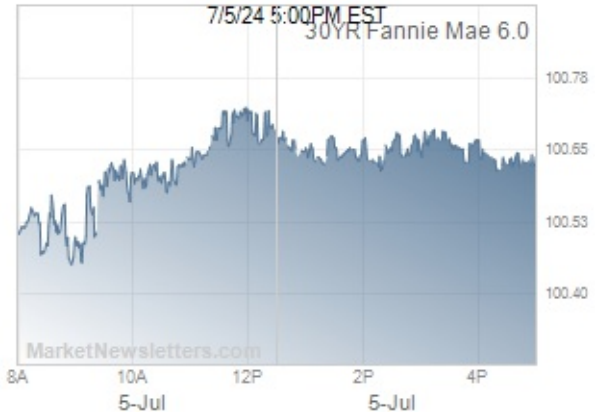
As you might guess, the trend is **not** giving any such signal at the moment! That doesn't mean we're not close though. Take the Bollinger Band study (the wave lines surrounding the Treasury yield candlesticks in today's chart) for instance. When the candlesticks are breaking through that upper band, that's super bad news. It means a confirmed uptrend is underway. But it also sets us up for a bounce.

As soon as the candlesticks break away from that line (break lower, that is), it's the first cue for a correction that is statistically likely to last at least a few days--many times longer. The corrections that follow those Bollinger Band cues aren't always barn burners. In fact, yields can rise **right back up** to previous highs just as often as not. But when they do, those previous highs are vastly more likely to act as a supportive ceiling, and it's from those SECOND bounces that we see the bigger corrections emerge

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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For the technical analysis nerds out there, like me, yes... we're talking about a "reaction high" and an "M top" in the Bollinger lexicon... not that either of these things have happened yet, but that's what we would hope to see in the event yields moved **back up to 2.47%** if they happen to bounce lower heading into next week. Bottom line, even if we happen to gain some ground today, it's not necessarily a sign that the selling spree is over. And even if we continue to gain ground next week, there's still an equal chance we'll be right back at recent highs. **But THEN!** Then things could begin to look up--assuming yields don't move up any more!

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Rich E. Blanchard

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