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The Day Ahead: Bonds Begin Day Testing Weaker Boundaries

It could just be random December trading that ultimately proves to be inconsequential, but every visit to the top of our recent ranges **has to be taken seriously**. Every time 10yr yields rise to test (or break) the 2.42% barrier, we're at risk of seeing a broader shift in momentum with "snowball selling" potential.

Snowball selling occurs when traders set up "stop loss" levels--yields or prices at which they'll automatically sell in order to avoid further losses. While that's a sound trading strategy in general (risk management 101, really), things get a bit tricky when the important technical levels are widely agreed upon.

For instance, we've seen 10yr yields hit 2.42, or close to it, time and time again. Some traders might see the magic line in the sand at 2.415 while others see it at 2.43. As soon as yields cross the first trader's stop-loss level, they **automatically sell**. That selling pushes the yield slightly higher, potentially crossing the stop-loss level for other traders who had slightly higher lines in the sand. A chain reaction of selling occurs and a snowball sell-off is underway.

Today begins with bonds potentially **teetering** on the edge of such a move.

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

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Fortunately, bond buyers can also identify the higher end of the range as a **buying opportunity**. These traders would be like the risk tolerant clients who choose to float their rate when rates are at the top of an established range. They're betting the range holds and that they'll soon be able to lock when rates move back to the lower end of the range.

The only catch for those buyers is that a definitive range breakout (to higher rates) ALSO forces them to sell, further adding momentum to the snowball. Bottom line, SOME poking and prodding above the 2.42% level isn't the end of the world, but if we happen to see yields over 2.44%, more weakness is likely to follow.

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