Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
Fax: 214.975.2874
richblanchard@richhomeloans.com
View My Website

The Day Ahead: Bond Selling Acting Like "Real Deal." Any Hope on The Horizon?

Things have gone from "very sideways" to **"very bad"** for bond markets in less than 48 hours. As of Monday afternoon, this could have been any other week during the past 3 months. Yields were trading well-within the confines of a very well established range and showed little intention of breaking out.

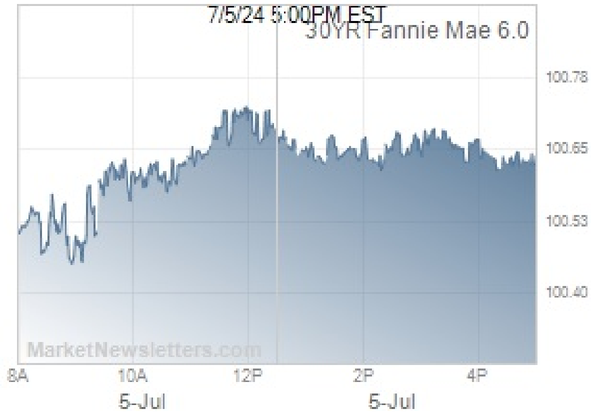
No matter how much I wrote (or you read) about the fact that consolidative ranges tend to give way to relatively explosive breakouts, the prospects for those breakouts **seem far in the future** and the fears seem overblown. Not only that, but there's always the hope that the breakout will end up being friendly, unlike the breakout we're actually seeing.

But as far as the conventional wisdom of consolidating, sideways ranges giving way to higher-momentum breakouts, this one has been **textbook** in its first 24 hours. The **next chapter** in the textbook reminds us that the implication is for further weakness from here. At the very least, that's what you have to plan on from a strategy standpoint, until the negative momentum is defeated.

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



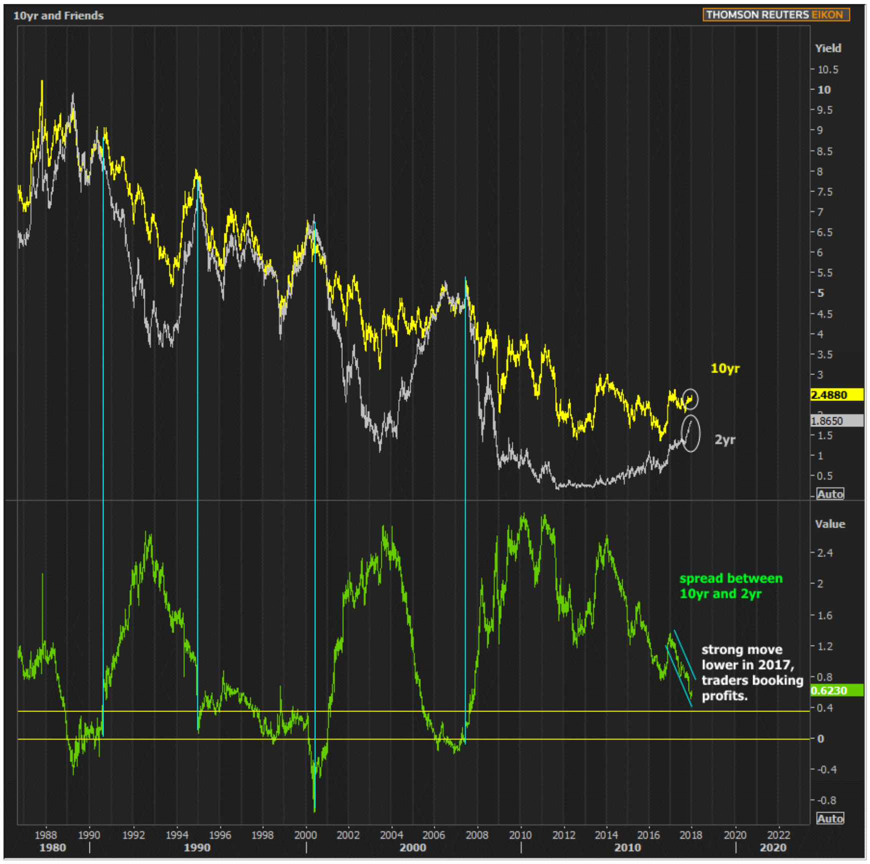
Average Mortgage Rates

	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

In the even bigger picture, past precedent suggests **hope on the horizon**. A big part of the selling pressure has been a small correction in the yield curve. "Yield curve" is a generic term for the gap between shorter and longer term rates. The poster child is the 2yr vs 10yr spread. Some refer to this as the 2s/10s curve. Some will simply assume "yield curve" and "2s/10s" are synonymous. For our purposes, we'll generally always be talking about 2s/10s unless another cross-section of the curve (like 5yr vs 30yr) is doing something more interesting.

The bigger picture hope stems from the fact that longer-term rates **tend to rally** after curve trading bottoms out. The following chart shows the phenomenon. Simply put, when the green line turns the corner at its lowest levels, rates have begun extended rallies.



There are **a few caveats**. Past precedent is never a guarantee. Commercials for financial market products tell us that much. In addition, we should also consider that the precedents I highlighted occurred during the decades-long bull market for bonds. As 10yr yields continually operate in the 1-3% range, we have to consider that the bull market could be leveling-off now, and that previously meaningful patterns may be less predictive going forward.

All predictions aside, the technicals are in general agreement that the current trend is not your friend. It will take **more than a day or two** of reprieve for that to change.

Subscribe to my newsletter online at: http://housingnewsletters.com/richhomeloans

Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

Rich E. Blanchard