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A Message from Stephen Moyer:

"Based on the current pricing we are back in the same old 3 week range."

The Day Ahead: Bonds Definitely Scored This Week, But Can They Convert?

If 2018 is a football game for bond markets, this week's trading through yesterday afternoon represented our first touchdown (let's not talk about how many the other team has. It's more than 1 though). Today, then, is our chance to convert the point after attempt and build some **positive momentum** for the rest of the game. Unfortunately, it's also our chance to leave that measly 6 points on the board, such that we're seeing something like "53-6" by the end of the game.

Bonds are beginning the day **under some pressure**, with 10yr yields clearly viewing anything under 2.795% as hot lava, despite slightly better gains in European bond markets and continued losses for stocks.



MBS & Treasury Market Data

| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 5.0 | 99.37 | +0.02 |
| MBS GNMA 5.0 | 99.93 | +0.02 |
| 10 YR Treasury | 3.9068 | +0.0029 |
| 30 YR Treasury | 4.1960 | +0.0028 |

Pricing as of: 9/1 7:34PM EST



Average Mortgage Rates

| | Rate | Change | Points |
|--------------------------------|-------|--------|--------|
| Mortgage News Daily | | | |
| 30 Yr. Fixed | 6.43% | +0.02 | 0.00 |
| 15 Yr. Fixed | 5.95% | 0.00 | 0.00 |
| 30 Yr. FHA | 5.82% | +0.02 | 0.00 |
| 30 Yr. Jumbo | 6.62% | 0.00 | 0.00 |
| 5/1 ARM | 6.28% | -0.01 | 0.00 |
| Freddie Mac | | | |
| 30 Yr. Fixed | 6.35% | -0.51 | 0.00 |
| 15 Yr. Fixed | 5.51% | -0.65 | 0.00 |
| Mortgage Bankers Assoc. | | | |
| 30 Yr. Fixed | 6.44% | -0.06 | 0.54 |
| 15 Yr. Fixed | 5.88% | -0.16 | 0.68 |
| 30 Yr. FHA | 6.36% | -0.06 | 0.85 |

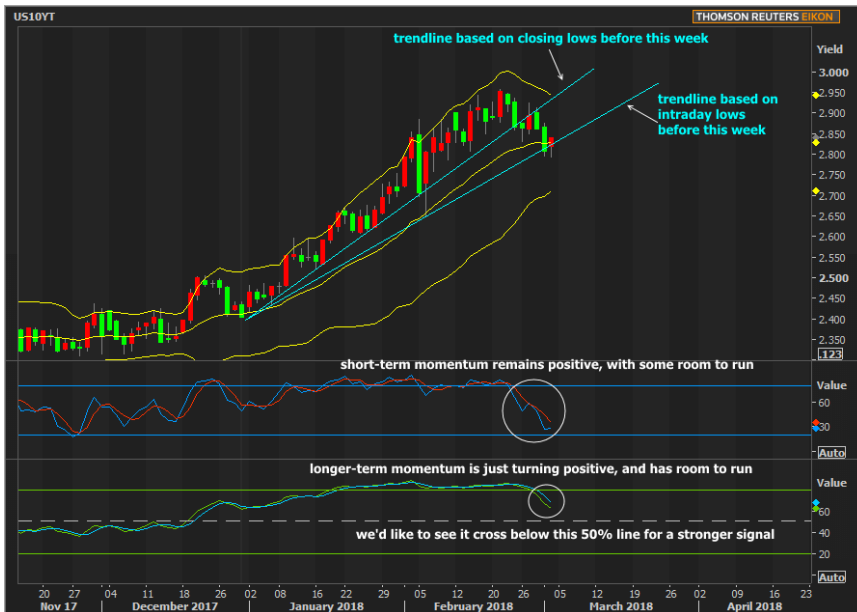
Bouncing there means bonds are shying away from a more committed break of the recent trend. This can be seen in the following chart of 10yr yield candlesticks. It includes 2 trendlines (in teal). One is based on closing lows and the other on intraday lows before this week.

| | Rate | Change | Points |
|--------------|-------|--------|--------|
| 30 Yr. Jumbo | 6.75% | +0.07 | 0.39 |
| 5/1 ARM | 5.98% | -0.27 | 0.65 |

Rates as of: 8/30

If we look at the more aggressive "closing low" version, this entire week has represented a **breakout**, and losing some ground today won't do anything to change that.

If we look at the less aggressive "intraday low" version, we're **bouncing right on the line** (this line also coincides with the middle Bollinger Band--another occasionally important pivot point during potential trend changes).



As the lower section of the chart shows, the news isn't all bad. Even with the early weakness, momentum indicators (fast and slow stochastics, in this case) are still giving positive cues and suggesting more room to run. We may or may not see traders show their cards today, but **here's what I'd be looking for:**

- Holding below the 2.85% pivot point would be a decent enough performance on the week to keep hope alive heading into next week
- Holding below 2.83% (the middle bollinger band and the level of the lower trendline from the chart) would be an even stronger performance
- Breaking above yesterday's mid-day highs of 2.87% would be bad news--enough to call the bounce into question
- As long as we don't break above 2.87%, we've still got a shot (i.e. bonds still could be in a prolonged "ceiling-forming" process), but staying below 2.85% would make me feel better about that.

Bottom line, bonds are like a lover scorned. We shouldn't expect them to jump right back into a full force rally at the drop of a hat. IF the recently positive momentum continues, it will be a bit of a bumpy road. In these situations, all we can do is stay on guard for signs that we're no longer on the road. The simplest way to think of such signs is the crossing of overhead technical ceilings (like 2.83, 2.85, and 2.87 discussed above).

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