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Under the California Residential Mortgage Lending Act
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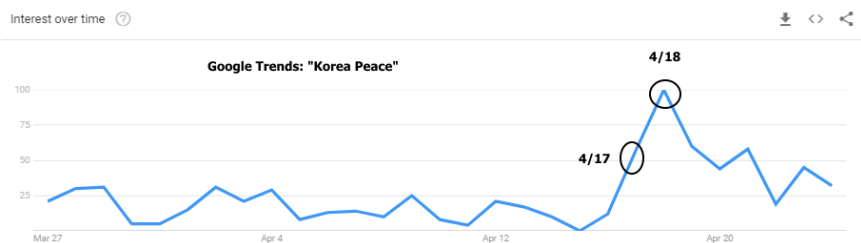
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The Day Ahead: Has Korea Been a Part of Recent Weakness in Bonds?

The abrupt sell-off that began on 4/18 has been a bit frustrating from an analytical standpoint due to an absence of clearly-delineated motivations. Granted, we can piece together a fairly compelling narrative from things like the tax deadline causing an increase in money manager bond buying, Syria-related tensions causing a "risk-off" bid that then disappeared, a technical break of March's correction trend, and an overextension of a "flattener" (2 and 10yr yields moving closer together) trade that was subsequently unwound, but it becomes more tangible **if we add Korea** into the mix.

While it's not huge, there's some constant price associated with risk of nuclear conflict involving North Korea. Nuclear risks are **positive for bond markets**, all other thing being equal. To whatever extent bonds can take last week's news at face value regarding the prospect for peace on the peninsula, there would certainly be SOME bond selling to be done.

The **only problem** I have with relying too heavily on Korea as a market mover is that the news was definitely out on 4/17, and there was no reaction. This leads us back to considering the temporary distortions from tax deadline retirement funding. But there's a bit of a caveat. The following chart is from Google Trends for the search term "Korea Peace." It shows a bit of delayed reaction in terms of awareness. This increases the chances that developments in Korea are a part of the recent move.



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



	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

Why are we talking about all of this today? Simply put, we just got the closing remarks from North and South Korean leaders. If this is indeed a relevant topic for markets, we would expect to see some evidence of that during the domestic session--especially after the 9:30am NYSE open.

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