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The Week Ahead: Auctions and CPI Data Vote on Bonds Next Move

Longer-term rates have been in a bit of a holding pattern after deciding not to smash through the highest levels in more than 4 years at the end of April. Since then, the trend has been **anything but conclusive** with yields drifting mostly sideways and occasionally slightly stronger. This could end up being the first positive hint before a broader recovery, or it could merely be a consolidation before bonds rejoin the previous selling trend.

The amount of indecision seen in bond trading since hitting those late April highs suggests both potential outcomes are still in play. We're certainly aware of the **mainstream narrative** pointing toward higher and higher rates due to the ongoing 'pricing-in' of increased bond issuance, decreased Fed accommodation, and risks surrounding increased inflation/growth. What we can't be sure of is the extent to which that narrative is already played-out in terms of driving day-to-day trade.

That's where the **second option** comes in. Think of it as an underdog (for now). The thesis is that the "higher rates" narrative has largely been priced-in and that bonds can now turn their attention to worrying about flat wage growth, trade war potential, and a maturing economic cycle. Some would say it's not too soon to throw mid-term elections into that mix as it could have implications for fiscal policy.

The following charts represent bearish and bullish cases. They're certainly not the only ways to approach them.

Bullish/Optimistic:

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

Bearish/Cautious:



Given the fact that I just said something about "indecision" and that both eventualities were still in play, what might tip the scales this week? The obvious answers are twofold: Treasury auctions and CPI data. Auctions take place on Tue-Thu, but it's Wednesday's 10yr auction that will be the **biggest deal** (of the 3 auctions, that is). CPI might limit the bigness of that deal, considering it comes out the following morning. Relative to the Treasury auctions, a big beat/miss in CPI would have much more market movement potential.

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