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The Day Ahead: Great News! Maybe...

It's been pretty doomy and gloomy around here so far this week, what with the spike to the highest 10yr yields in nearly 7 years and what not. So how about an op-ed counterpoint to all the gloom? I'll go ahead and write it myself, since you have to have mild MPD to be an objective bond market commentator anyway. But in the interest of stay objective, I will bring in an opposing personality to write a quick counterpoint. Here goes:

Bond Bullish Matt:

Remember a few weeks (or maybe it was more than month?) ago when I talked about the 25 and 50 day moving averages? As you know, I don't much care for moving averages as timely indicators of bond market shifts (largely because they suck for those purposes... seriously, don't use them in a repricer risk forecasting routine). But I do give them credit for helping to identify higher probabilities of bigger picture trends.

I feel like the last paragraph was a bit confusing, so just to be clear, I'm saying that a certain pattern or break in moving averages is never a guarantee that something else will happen within a certain time frame. But certain patterns can suggest a generally higher probability that something will happen in the bigger picture.

In early April, we saw the 25 day break below the 50 day for the first time since the tax bill sell-off began. To many technical analysts, this was a sign of a shift, but as I warned you, it was really a reflection of what had already happened (the March consolidation). I then said that these breaks are typically reversed in fairly short order and that it's the SECOND break that coincides with the more serious rally.

With all that in mind, it looks like we're getting fairly close to that turning point where the 25-day average once again begins heading back for that 2nd break. We haven't turned that corner yet, but as the top pane of the chart suggests, it shouldn't be too far off. The bottom pane of the chart will be discussed by the other guy.

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

Bond Bearish Matt:

Almost everything the other Matt said is based on past precedent. I mean, c'mon... everything that any technical analyst says is ALWAYS based on past precedent because there's no other way to feed the calculations that make certain technical calculations (supposedly) relevant if not with trading that's already happened. If we've been in a bond bull market for nearly 40 years, and if that is at its most serious risk of changing, can we still apply the same logic?

Even then, Bond Bullish Matt's own points could be used against him. Sure, perhaps we do see a bit of a correction some time soon, but several of the past examples he pointed out (2017 and 2009, for instance) were more like brief intermissions before more pain. Bottom line: you'll almost always get at least an intermission after extensive selling, but A) we don't know if that intermission is starting just yet and B) it might not last very long or be very enjoyable.

Neutral Matt

Today brings a few economic reports, but bonds really aren't interested in econ data unless it's a top tier report that's showing a HUGE miss or beat versus expectations. Markets are MUCH more concerned with sorting through tradeflows, and trading positions right now. The big break of the 6+ year high yields in 10s was the catalyst for a lot of "if/then" trading. For instance, in not so many words, traders always have certain trades they'll instantly make or look to make if some big milestone is achieved. And this week has presented one of the biggest milestones of the post-crisis trading environment. It's set off a frenzy of bet-making and position-squaring (cashing-in previous bets, or cutting losses therefrom).

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