

## Stephen Moye

Sales Manager/Senior Loan Officer NMLS: 268619/CA-DBO268619, New American Funding Corporation. NMLS: 6606, Equal Housing Lender Licensed by the Department of Business Oversight Under the California Residential Mortgage Lending Act

CA-DBO268619 Corp. NMLS: 67180 Equal Housing Lender 1615 Murray Canyon Road #1050 San Diego, CA 92108

Office: 619-309-1678
Mobile: 619-895-8128
Fax: (619) 793-1026
stephen.moye@nafinc.com

View My Website

# The Week Ahead: Defending The Gap Without European Help Could Be a Challenge

Where were you 3 weeks ago when we were just beginning to discuss Italian political risks? I don't remember where I was, but I definitely know where rates were. 10yr yields had just broken above 3.04% for the first time since 2011 and quickly moved over 3.10%. At the same time, the European risks were pulling German Bunds quickly lower, setting us up for a tug-o-war.

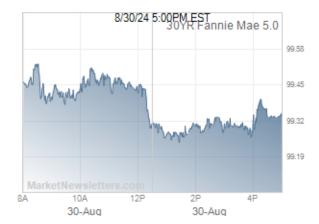
Actually a better name would be "tug-o-battle." Treasuries have been **determined to lose** the war on higher rates since 2013 at least, and have consistently been bailed out by European drama (first with ECB QE, then with Brexit). In this sense, US rates have been forced to win their fair share of battles despite continuing to lose the war.



#### 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: 9/17:34PM EST



### **Average Mortgage Rates**

	Rate	Change	Points
Mortgage News I	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 Banker	rs 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

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The most recent Italian battle is small potatoes in that bigger picture, but it helped nonetheless. The problem is that it's still just a battle. **Treasuries have an agenda**--a clear set of factors pushing them higher. As the effects of the Italian battle wear off, the bigger-picture war on low rates comes back into focus.

	Rate	Change	Points
	itate	Change	1 011163
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65
Pates as of: 8/30			

**In other words:** without a constant supply of new, more dire EU drama (or whatever the temporary flavor of the month may be), US bond markets will most likely have a hard time finding their own reasons to rally. This week begins with an important visual reminder of that fact with 10yr yields pushing up into "the gap" right at the outset.



The rest of the week is fairly sparse in terms of data and events. If the EU drama remains muted, technical motivations for Treasuries/MBS run the risk of being unfriendly. Granted, that's **always** a RISK, but in this case, the **point is** that without a fresh supply of external "help," a break above "the gap" (combined with the existing momentum from mid-May) suggests follow-through selling.

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