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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: 9/1 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 |

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.

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.



| | 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

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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