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The Week Ahead: High Stakes and Wide Range of Outcomes

Bond markets have weathered the storm of Italian political drama, which created the bulk of volatility over the past 3 weeks. They've considered the implications of various tariff-related developments at home, as well as the implications for potential European Central Bank tightening abroad. That has played out against the backdrop of steadily increasing Treasury supply and a slow-but-steady resolve to raise short-term rates on the part of the Fed.

All of the above resulted in a fairly wild range trade centered on the high pivot point at 2.95% in 10yr yields. The upper boundaries were set just before Italy "saved" rates and the lower boundaries were achieved when the Italian situation was at its **worst**. At that point, markets even began to fear the Fed/ECB would adjust their announcements to account for the systemic risk to the EU (good for rates).

As those risks have subsided, yields rose very quickly back TOWARD previous highs, but notably ground to a halt around the 2.95% level. Instead of **blasting** to new 6 year highs, yields were instead holding at a sort of "high ready" position, waiting for something to come along and offer some clarity on whether another move to long-term highs was justified.

Many would argue that "something" is the combination of this week's events. The level of importance builds steadily throughout the week. Today's and tomorrow's Treasury auctions offer a quick and easy way to establish an updated baseline for long-term bond demand (today trading levels are almost exactly the same as those seen before the last 10yr auction on May 9th). Tomorrow's CPI report is **one of the 2 biggest** pieces of data when it comes to market movement. Wednesday's Fed events include an update rate hike outlook (aka, the "dots") as well as a press conference with Fed Chair Powell. Finally, Thursday morning brings the much-anticipated ECB announcement, where we may finally here Mario Draghi broach the topic of winding down the ECB's bond buying program.

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

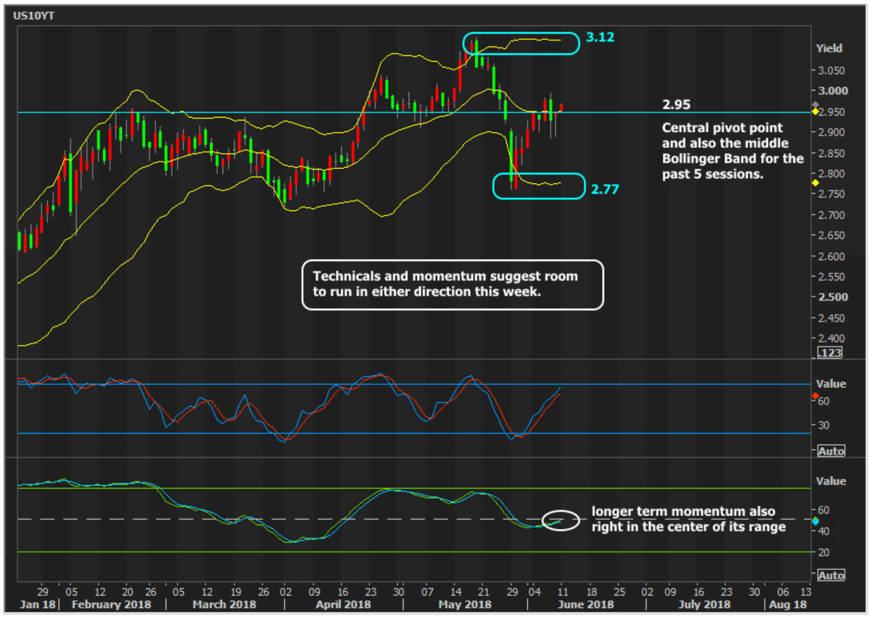
	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-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

As far as 2.95% acting as a base of operations for more selling or a bigger, friendlier bounce, there's a fairly logical case to be made. 2.95% was the **first major ceiling** for rates in 2018 and after it offered its first bounce in Feb, yields didn't return until late April. After that, it threatened to become a **floor** in early May--further asserting its technical relevance. Italy showed us it could indeed be broken, and interestingly enough, took yields nearly 20bps lower from 2.95% after they'd been nearly 20bps higher a few days earlier.

This results in 2.95% now being the center Bollinger band in addition to a plain old "pivot point." If we're wondering how far rates could run based on **better and worse case scenarios** this week, the recent examples of near-20bps runs in either direction make things pretty clear.



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