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The Day Ahead: When Moving Averages Converge!

I received an interesting question yesterday as to whether or not there was any significance in the fact that 25, 50, and 100 day moving averages are right on top of each other on the 10yr Treasury chart. I'm not too shy about saying that I think moving averages are **tremendously overblown** in terms of their predictive value. But to be fair to moving averages, I would say the same thing about almost any piece of technical analysis. After all, if there were truly a magic decoder ring that allowed a trader to reliably predict the future with better than random accuracy, everyone would soon be using the same tools and the competitive advantage of the unique approach would cease to be an advantage.

No, at best, technical analysis is a complement to a diverse arsenal of analytical approaches. At best, technical cues are suggestions that **mildly** increase the probability of a particular outcome. In general though, they merely serve to help distinguish between random market movement and something more important.

Beyond all of the above, we usually want to take technical cues with a **grain of salt** if volume and liquidity are light, and if we're trading in the month of July or August. Still, the aforementioned moving averages are currently right on top of each other. They don't do that very often, so let's take a look at what it's meant in the past. The following chart shows the moving averages and points out whether the next move was a head fake or a reversal.

MBS & Treasury Market Data

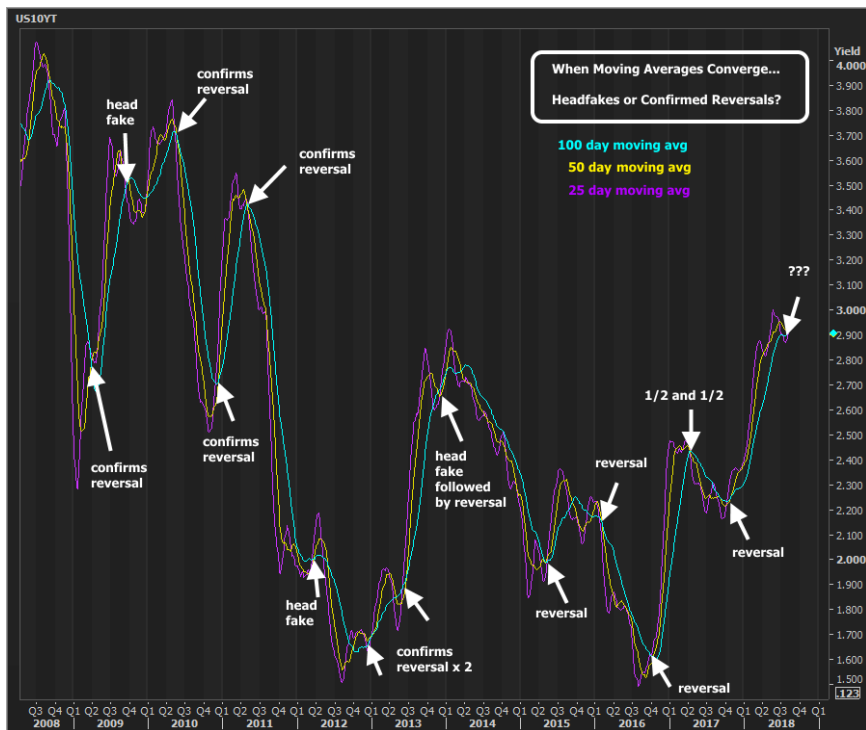
	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

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

Indeed, it would seem that, more often than not, the convergence of the moving averages confirms a reversal in rates. If you'd like to stop reading here, and go plan accordingly for the big drop in rates that's surely about to begin, feel free to go do that. You'll either come away from it with a **zealous devotion** to the secret power of moving averages, or **zealous mission** to warn others about these false prophets.

The problem with trying to glean a thesis from this stuff is that it could be argued either way. On the one hand, we can say that these convergences are more often associated with reversals. On the other hand, the timing and size of those reversals varies widely. Several of them are "head fakes" which start out looking like reversals only to continue on in the previous direction. The end of 2009 and 2013 as well as the middle of 2017, to a lesser extent, all offer warnings about seeing the current convergence as a reversal. Sure, maybe it will turn out to be eventually, but in the meantime, we could spend months moving back toward higher yields.

Beyond all that, my contribution to our collective understanding of moving averages (and all technical analysis, really) is that they do so much more to tell us about what has **ALREADY** happened as opposed to what **WILL** happen. In all of these cases, we can go back to the key market movers of the day and account for the big moves. In all cases, it was the combination of fundamentals, central bank policies, geopolitical risks, systemic financial developments, etc. that accounted for the big swings in rates that ultimately produced the convergences and reversals in the moving averages.

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