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The Day Ahead: Bonds Look Like They Might Try Again

In the short-term (past few weeks), the trend has not been our friend. After breaking above a narrow, sideways range, yields had been pushing higher and even crested 3% on the first 2 days of the month. Over the past week, however, they've been **trying to change their evil ways**--trying and mostly failing.

The benchmark for these efforts depends on your perspective, but the pivot point (a level that has tended to result in more bounces than breaks when approached from either direction) of 2.95% is **well-situated to cast some judgment**. Also nearby is the middle bollinger band (a 21-day exponential moving average that often serves as the dividing line between positive and negative momentum).

Then there are the momentum studies themselves. These involve somewhat more complex math, but all seek to convey the simple concept of momentum. Whether we're talking about fast stochastics (short-term momentum represented by red/blue lines in the following chart), slow stochastics (longer-term version of the same) or the Relative Strength Index/RSI (a single line that is sort of a **warm bowl of porridge** between fast/slow stochastics), the higher the respective lines go, the worse momentum is for bonds. The lower the lines go, the better.

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

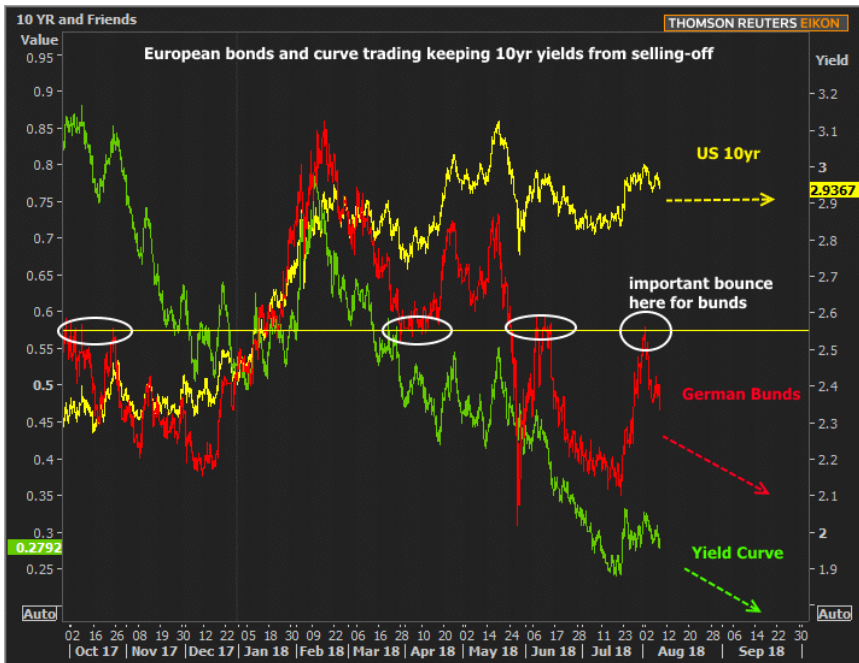


	Rate	Change	Points
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

All that to say that momentum technicals look like they have more opportunity than they have recently. Today and tomorrow will still be important in confirming that bonds are **taking advantage of that opportunity**. The first/best clue would be a solid break below the 2.94-2.95 zone, and for us to remain in stronger territory after tomorrow morning's CPI data.

European bond markets are also playing a role and are worth considering as a market mover. Several big bounces at a ceiling of roughly 0.58% in German Bunds have helped US bond markets avoid harsher selling pressure in the past few weeks. The catch is that Bunds may need to **continue** rallying in order for Treasuries to be comfortable doing the same.



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