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The Day Ahead: Let's Talk Turkey

Turkey (the country, not the lunch meat) is the 17th biggest economy in the world in terms of GDP. That's roughly 20% bigger than the next closest country, Saudi Arabia, and **4 times bigger** than Greece. All that to say, Turkey isn't a completely insignificant piece of the global economy. So the fact that they're having a rather epic debt crisis is making the news.

I discussed this a bit yesterday, and at the time, we weren't seeing enough correlation spill over from the plummeting Lira to US markets. Not only that, but by far and away, yesterday's biggest domestic market movements were completely independent. Bonds big move lower in yield followed the Producer Price Index. At that time, Lira were **doing nothing**. And it was the same story with the quick stock sell-off at 3:50pm ET. The S&P tanked a quick 10 points while Lira did nothing.

All that having been said, at a certain point, potentially market-moving sideshows get **loud enough** to divert some attention from the main stage. That's arguably the case this morning. But even then, the correlation is hit and miss. All we can really give Turkey credit for is a portion of the overnight strength in bonds and weakness in stocks (note the most recent drop in Lira failed to illicit a correlated drop in bond yields and stocks).

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

If we look at a longer-term chart with 10yr Treasury yields versus Turkish Lira, we could make a case for correlation, but we could use the same chart to argue against correlation. **Particularly**, in the bottom section of the chart, see how Treasury yields are spiking in April and May despite Lira beginning its downward spiral.



The truth is that this isn't a black and white issue. Those who would argue that this is the most important market mover for the US right now are wrong, as are those who would argue it doesn't matter. The independent spikes in stocks/bonds clearly argue that there are bigger market movers in play, but the instances of correlation can't be ignored.

As is so often the case with these dire situations in markets that we essentially never discuss/watch/care about, there's a **magic line in the sand**. When the situation gets dire enough, it's worth x% of response from US markets. If it manages to get even more dire, X becomes a slightly bigger number, but never the biggest number.

Then there's the matter of the **rebound effect** to consider. While no one wants to catch the falling knife today, apparently, at some point there will be a bounce, or at the very least, at some point this particular drama will have run its course. When that happens, US bond markets might have to give back some of the safe-haven gains they'd realized as a result of the drama. Bottom line: this is a modest tailwind for bonds, but it's not a game-changer.

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