



## Stephen Moyer

Sales Manager/Senior Loan Officer NMLS:  
268619/CA-DBO268619, New American Funding Corporation. NMLS: 6606, Equal Housing Lender  
Licensed by the Department of Business Oversight

Under the California Residential Mortgage Lending Act  
CA-DBO268619 Corp. NMLS: 67180 Equal Housing Lender  
1615 Murray Canyon Road #1050 San Diego, CA 92108

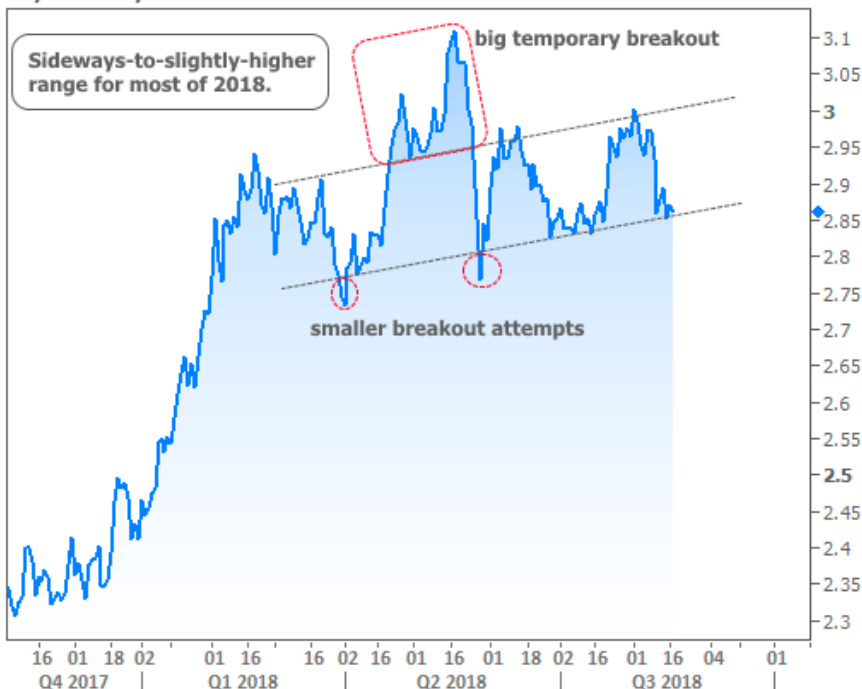
Office: 619-309-1678  
Mobile: 619-895-8128  
Fax: (619) 793-1026  
[stephen.moyer@nafinc.com](mailto:stephen.moyer@nafinc.com)  
[View My Website](#)

## The Day Ahead: Checking In With Bigger Picture (Treasury vs MBS)

It may end up being a slow, summertime Friday with the news cycle calming down relative to earlier in the week, not to mention the fact that its peak vacation season (traders take vacations too, ya know!). That gives us a moment to step back and reflect on some **bigger picture trends**.

US rates have been playing Red Light, Green Light with global risks all year. If they had their way, they'd continue moving higher, but they slowed their roll and settled into a more gradual pace after the Italian political drama in the middle of the year. The weeks leading up to the Italian drama ended up looking like a **big, temporary breakout** of what would eventually become the sideways-to-slightly-higher range.

10yr Treasury Yield



Subsequent global risks haven't measured up to Italy in terms of bond market impact. Trade-related concerns (mostly a China story) come and go. Most recently the Turkish currency crash teamed up with fresh trade drama to help bonds. Notably, that was only **just enough** to get us back to the lower

## 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

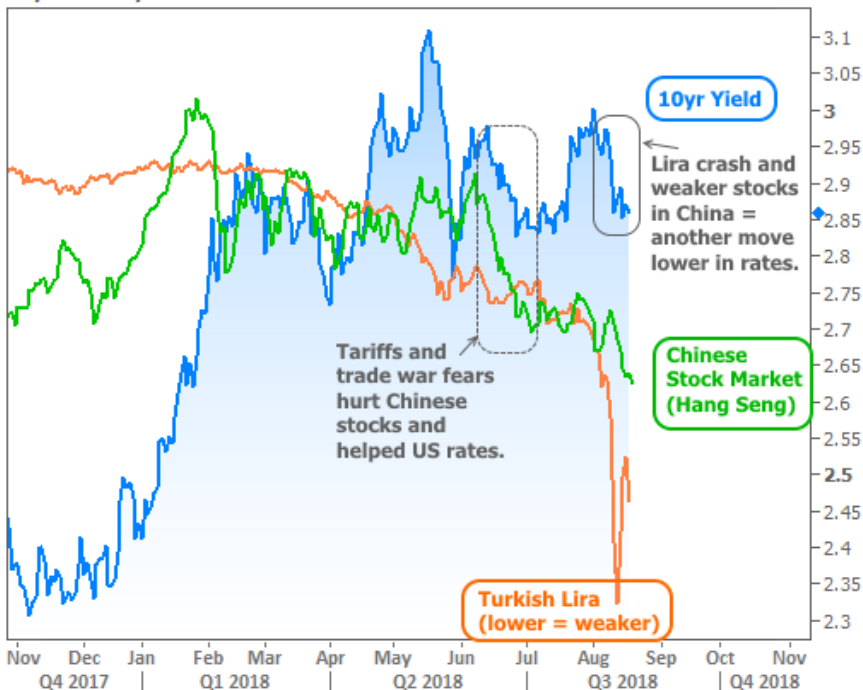
	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
<b>Mortgage Bankers Assoc.</b>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

end of the range.

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

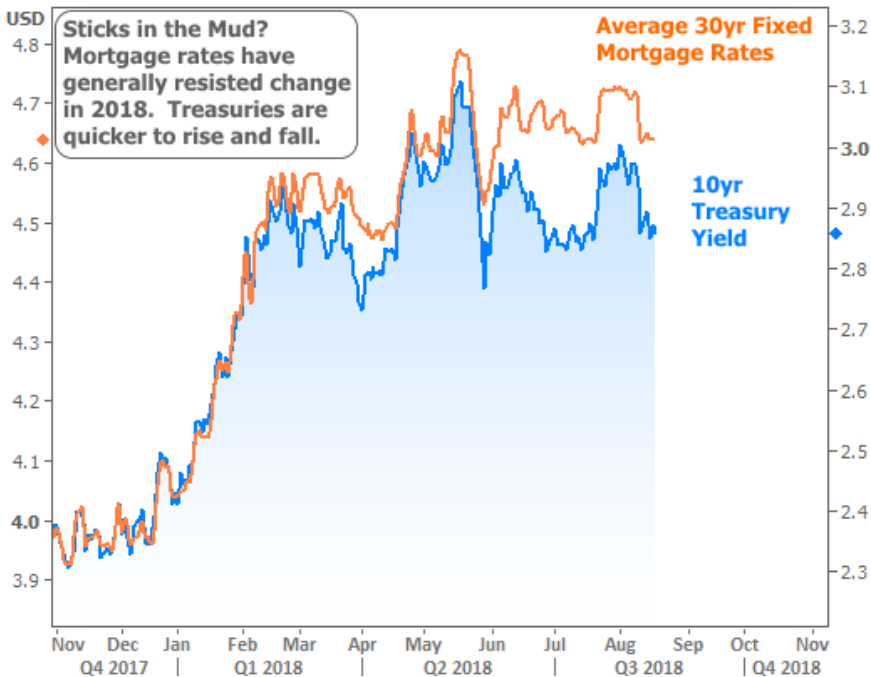
Rates as of: 8/30

10yr Treasury Yield



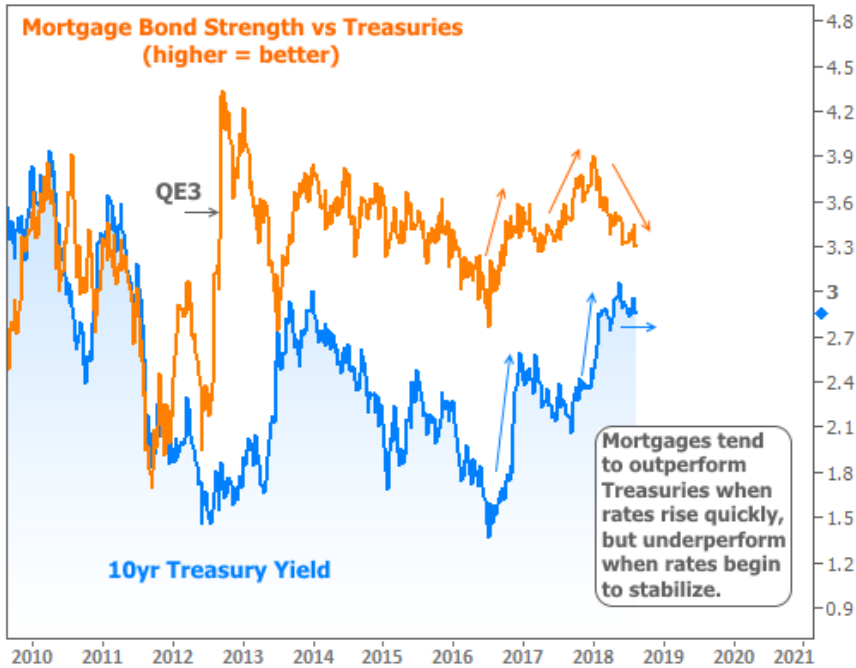
But of course Treasury yields aren't the full story when it comes to mortgage rates. There, we've seen a common scenario unfold. Simply put, mortgage rates have risen just as much as Treasuries but have been slower to return to previous levels.

Treasuries vs Rates



Part of this has to do with the fact that MBS tend to do better than Treasuries when yields are spiking rapidly and worse when yields are falling. **Reason being:** Treasuries are first to react to big market movers. Treasury trading positions also have more of a domino effect during times of volatility (for better or worse). The only major exceptions occur when a mortgage-specific shock comes along (like the early days of the Financial Crisis or QE3, which targeted MBS specifically). Apart from that, MBS are just doing what they normally do when a Treasury rate spike stabilizes.

Treasuries vs Mortgage Bonds



As for today, if we're not breaking below 2.82% or above 2.9% in 10yr yields, nothing notable is happening. Volume is starting out on the very light side and should stay that way. The only caveat is that low volume and light liquidity can occasionally result in **bigger moves** than we'd otherwise see, but that requires a few traders straying from the beaten path. We haven't seen any signs of that yet, with this morning's Treasury strength more easily explained by overnight weakness in Chinese equities and a cooling off of a big 2-day rally in US equities.

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**Stephen Moye**

