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The Day Ahead: Resistance Mounting as Bonds Hold Same Old Range

Late June through late July saw 10yr yields trade in the 'same old range' with lows centered on 2.81 and highs on 2.89. That range was broken at the end of July but has since come back into fashion thanks to emerging market uncertainty, a slight softening from the Fed, and trade war risks.

Until this week, it looked like bonds may have tried to challenge the lower end of that range. Now, as the second day of weakness already looks to be well underway, we're **at more risk** of breaking the ceiling than the floor.

Progress on trade and all-time high stocks are arguably behind yesterday's bounce. This morning, a small group of headlines (another snippet about trade with Canada and a new story about a potential **German bailout of Turkey**) is adding to the weakness.

Unfortunately for technicians (those who watch certain levels in bonds more than others based on mathematical models and past precedent), this not only reinforces a bounce at the lower end of the 'same old range,' but it also occurs just in time to give other negative technical cues. The cues in question are various momentum overlays such as the popular fast and slow stochastic oscillators seen at the bottom of the following chart (shorter and longer-term momentum respectively).

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

The bounce in yields themselves is plain to see. From there, short term momentum is nearly as obvious with the past 2 days creating the first move up from the lower 'overbought' line since July. Short-term momentum is flighty though. It's **more sinister** when accompanied by a similar bounce in longer-term momentum. In the current case, it looks like that's a distinct possibility.

If that all feels depressing, there's a saving grace. Summertime trading conditions will persist at least through this week, and that means all of this movement could easily prove to have been an **intermission** or sideshow with real trading expected to pick back up as September gets underway. That's not to say summertime trading isn't 'real'--simply that it doesn't necessarily convey a healthy/normal balance of buyers and sellers. Oftentimes, when that balance is restored, things change.

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