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The Day Ahead: Scary Technical Pattern Shaping Up For Bonds

What is a pivot point? In our primer on the topic, I talk mostly about levels that have repeatedly offered resistance or support to bond yields, but there's **another relevant addition** to the definition. Pivot points can also be suggested by a singular bounce at long-term high/low. It's not necessarily the first bounce that suggests a certain level as a pivot. Rather, it's when yields return to that level and fail to break on through to the other side.

With all of the above in mind, 2018's previous ceiling at 3.128% (we'll **call it 3.13%**) is shaping up as just such a pivot point. It acted as a floor as long ago as last Thursday, but yields were holding close--something they often do before attempting to break through. Yesterday's weakness pushed us far enough away from 3.13% to consider it a firmly established pivot point.

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

This is **scary** because it's just another way of representing a **large-scale repricing of reality** for the bond market--a big-picture shift from one phase of this rising rate environment to the next. Such shifts are by no means immune from being undone, but if without guessing at what the future might hold, we're left to conclude that the past few days have confirmed this scary shift.

I say "scary," but really it's just "unpleasant." Actually, unpleasant could be **too gentle of a word** for many of us. But the point is that there was always a reasonable expectation for rates to push into new long-term highs this year, due to the combination of higher Treasury issuance and ongoing Fed tightening. Recently strong economic data has only added marginally to the pace of the adjustment. As for Fed tightening, I'm hearing that some traders were legitimately waiting to see if the Fed had any secretly dovish messages in the Minutes. While that may happen in the next few Fed releases, it clearly wasn't time yet.

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