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The Day Ahead: Bonds Defend And Hope to Extend

For nearly a week, 10yr Treasury yields had been treating 3.18% as a floor (3.178% was the lowest close over the past 4 days. That arguably **changed yesterday**, with the entire session trading under 3.18% despite a late day sell-off that almost spoiled the party. With overnight strength, bonds are now in a position to confirm the technical breakout.

That would be a small victory. 3.18% is a short-term, intermediate pivot point at best. What we'd really like to see is a confirmed break below the most serious floor of the past 3 weeks at 3.13%. Realistically, that would require a move below 3.11% (which would break yesterday's intraday lows--also the intraday highs from September 25th). The following chart splits the difference at 3.12%, but **let's not split hairs**. The point is there's a zone of yields from 3.11-3.13% acting as a bigger-picture floor. We could even through in the middle bollinger band at 3.14% to round out today's resistance barriers.

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

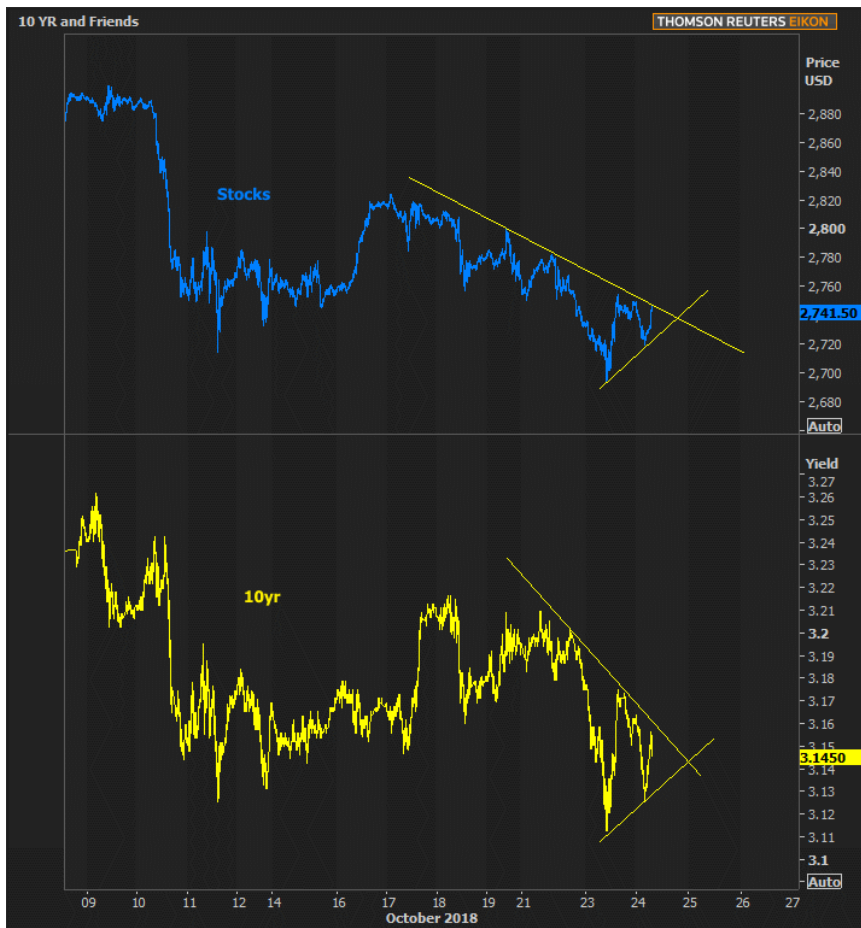
	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-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

With stocks in sharp focus yesterday, it's worth keeping an eye on the stock/bond relationship again today. They won't necessarily trace each other in lock-step, but any pronounced selling in equities stands a **very good chance** to give bonds a boost. We're not necessarily doomed to forego such triumphs simply because stocks rallied yesterday afternoon. They, too, have been in a moderate **downtrend** recently--even if we measure that trend based on their stronger levels of any given day, as seen in the following chart.



Today's calendar brings the week's first relevant economic data and Treasury auction. New Home Sales isn't necessarily a top tier report, but a **big deviation** from expectations has been known to have an impact from time to time. The 1pm 5yr Treasury auction is in a **similar** position. It usually doesn't have an impact, but unexpectedly strong/weak results can cause exceptions.

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