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The Day Ahead: Bonds Fight to Maintain Recent Gains

With slightly weaker levels overnight, the rest of the day becomes a fight to maintain the gains seen so far this week. The easiest and most basic observation about those gains is that they've come courtesy of much weaker stock prices. In that sense, it would seem all we need is for stocks to avoid a big bounce, but the overnight bond market movement suggests **some caution**.

This morning's chart is a little "busy," but just focus on one or two of the lines at a time. For instance, notice that the yellow line (10yr yields) begins to move higher overnight even though the blue line (stocks) isn't moving higher nearly as much. That said, if stocks were to fall below yesterday's lows (horizontal blue line at the bottom of the chart), bonds would **almost certainly** have to react in a **positive** way.



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

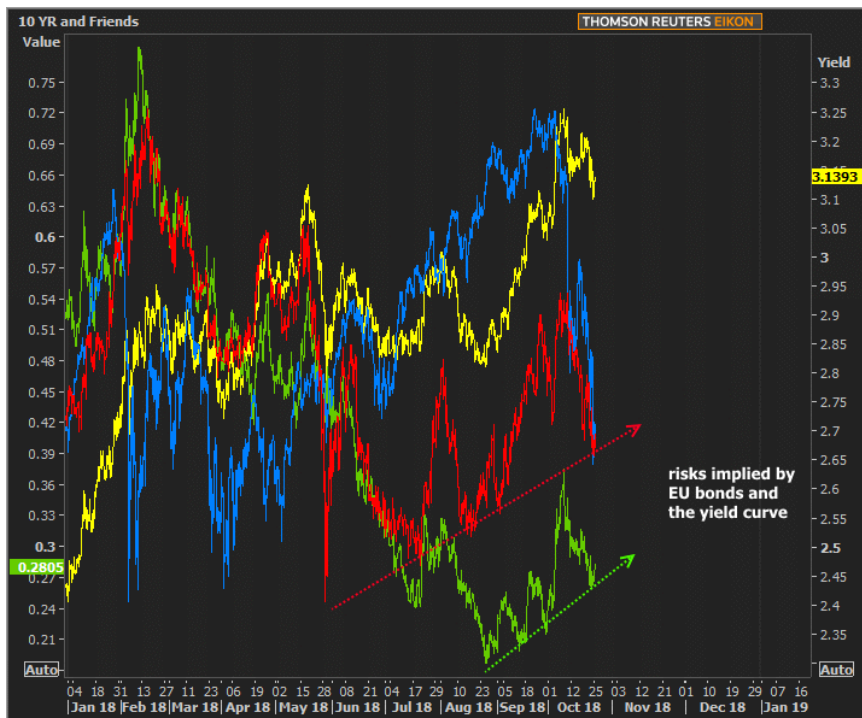
	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85

The other two lines on the chart show how German bunds (the yard-stick for the EU bond market) and the yield curve are suggesting challenges for Treasuries. The most important thing to notice about the yield curve is that it didn't dip yesterday in the same way that stocks and 10yr yields did. In the bigger picture, the **yield curve is trying to bounce** toward higher/wider levels. It would have some room to run even without violating the longer term trend lower/tighter.

	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

That's all a bit esoteric, so I'll **put it more simply**. The rates that matter to us in the mortgage market take cues from longer-term Treasuries. Longer-term Treasuries take some of their cues from trades that are focused on the yield curve (in other words, some traders are trading based on curve levels as opposed to 10yr or 2yr yields themselves). To whatever extent the yield curve is trending higher/wider, it would imply upward pressure on rates over a period of days to weeks. Notice the last few bounces in the longer-term version of today's chart below (and the potential trend-channel bounce in German bunds).



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