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## The Day Ahead: Two Trends Suggest Risk of Resistance Bounce For Rates

With bonds being flat to slightly weaker yesterday and now noticeably weaker overnight, we may be looking at our first real resistance bounce (aka "floor") in over a week. Such a bounce makes a case for **two different trends** that may be emerging. Both are highlighted in the following chart.



The yellow lines represent a potential downtrend. After hitting long-term highs earlier this month, there's certainly a chance such a trend could continue a while longer if economic data disappoints this week.

The teal lines represent a potential consolidation trend. In one sense, this could speak to a bit of **indecision ahead of mid-term elections**. But this trend would also leave enough room to be a quintessential circling of the wagons ahead of Thanksgiving weekend (it's not uncommon to see uninspired consolidation heading into the end of November).

## 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

No matter which of these trends receives more validation in the coming days, current yields levels are in line with the resistance lines (or they were, before today). Because both the trends share the same support line (the upper yellow or teal lines), the implied ceiling for the rest of the week begins at **3.18 today** and descends to **3.14 on Friday**. Remaining under that ceiling would keep hope alive for either trend.

	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

Trends aside, stocks have mattered recently, and bonds have needed higher doses of stock losses in order to sustain recent rally efforts. **Case in point**, this morning's losses represent a breakout of an even shorter-term trend for bonds (teal parallel lines), even though stocks are still arguably inside their downtrend (yellow parallel lines). The alternative would simply be to consider the entirety of October as having a broad, general downtrend in both sides of the market offering a resistance bounce over the past few trading sessions.



Between today and tomorrow, we'll have month-end tradeflows compete with economic data in order to cast votes on these trends. **One risk I have in mind** any time there's been a nice rally in the 2nd half of any given month is that month-end portfolio benchmarks call for a slightly weaker bond market than "nice rally" levels suggest. That means a certain contingent of traders could have some bonds to sell in order to hit their month-end benchmarks, and the inverse could be true for stocks. We should have a very clear idea of whether or not this scenario is shaping up by tomorrow morning.

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