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The Day Ahead: Bonds Begin Week With Some Optimism

As of last Thursday, it **didn't** look like traders were much interested in hearing arguments in favor of bonds. Then, an unexpectedly healthy little rally on Friday kept hope alive going into the 3-day weekend. Now this morning, the week begins with yields a few bps lower still.

10yr yields begin the week below the middle Bollinger Band (a 21-day moving average that serves as a sort of dividing line between a majority of buying and selling sprees. As can be seen in the most recent dip below (middle yellow line), sometimes the buying sprees are short-lived when we're in the midst of a longer-term uptrend in rates. Momentum technicals (the stochastic oscillators at the bottom of the chart) are also in **pretty good shape**, with a potential bounce shaping up in shorter-term momentum.



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 message is that traders haven't completely resigned themselves to a life of higher and higher yields--at least not without giving data and events a chance to make their cases. This week's most relevant data is tomorrow morning's Consumer Price Index (CPI). This isn't always guaranteed to move markets, but a **volatile reaction is more likely** the farther it falls from the forecast. For instance, if Core CPI hits 2.4 or higher, that could easily put an end to these past 2 days of gains. But if it falls short (2.2 or lower), the good times could keep rolling.

	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

Beyond all of the logical considerations about, we should also be aware that Thanksgiving is coming up next week (as early as it possibly can!). The closer we get, the less accountable bond markets tend to be in terms of doing what we'd expect based on a certain set of inputs. In other words, over the next 6 business days, trading runs the risk of being incrementally **more random**, and having incrementally less bearing on the trading that we'll see in the following weeks.

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