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The Day Ahead: A Simple Framework For Approaching Rate Risk in the Coming Days

This morning's chart looks complicated at first glance, but it's actually very simple. It doesn't even matter if you're familiar with candlestick charts. All you need to know is that each candlestick contains the trading range on any given day. With that in mind, it's easy to see how narrow and sideways things have been since the beginning of last week.

There are two recent examples of similarly narrow behavior following a rally, the first example **lasted much longer**, but that's the only meaningful difference. We can use momentum indicators to draw more parallels. Those indicators appear along the bottom of the chart. In general, the higher the line, the weaker the momentum. Vice versa for a lower line. Hitting the ceiling or floor and bouncing in the other direction suggests a shift in 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

As the chart suggests, both of the past instances began with short-term momentum on the floor (technically referred to as "overbought") and longer term momentum heading toward the floor. In that sense, the current example is exactly the same. Both of the past examples offered a warning sign when short-term momentum rose noticeably above its floor.

	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

The current example hasn't quite made it to the "warning sign" stage yet. For that to happen, we'd need to see at least one decently sized sell-off (3-4bps) that occurs within a 2-day window. If that warning sign is accompanied by a shift in longer-term momentum (i.e. the green/teal lines begin moving higher), it would strengthen the signal.

Long-story short, we're on the lookout for a warning sign, but have yet to see it. When/if we do, the odds increase that we're witnessing a shift toward weaker momentum. The caveat is that no technical indicator will ever perfectly predict the future. It could be the case that traders see some reasons to sell in the next few days only to change their minds after seeing next week's data. If that happens, it would look like we're getting that "warning sign" only for a rally to take shape a few days later.

Technical aside, next week's econ data continues to be the **most relevant risk/opportunity** for bonds when it comes to informing the next wave of momentum. This week's data doesn't really have the teeth.

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