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The Day Ahead: Bonds Thinking About Taking a Lead-Off?

I use the baseball/lead-off analogy quite a bit to refer to a range breakout that occurs before the important event that is most likely to cause a breakout. In the current case, that event is actually a series of events culminating in next week's Jobs Report.

Next week is important in a general sense because it's the first week of December, and it marks the start of the final approach to the end of the 2018 trading year. The first 3 weeks of December frequently see an uptick in bond market momentum. Individual focal points frequently include the jobs report and the Fed announcement that follows roughly 2 weeks later.

With the sideways momentum strongly intact on the first 3 days of this week, we were getting closer and closer to that first week of December. But as of this morning, bonds may be interested in taking a lead-off.



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, such a lead-off morphs the previous sideways trend into a rally trend. It also keeps the shift in short-term momentum at bay (blue/red lines, with the last notable spike from flat levels highlighted in late August).

	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

Keep in mind though: it's a rally trend as of **today!** Tomorrow could change that. As soon as we see a momentum shift like the one in August, it will be time to get more defensive. If that spike arrives before next week's jobs report, I would only get as defensive as I needed to get, on the chance that the jobs data reinvigorates the rally.

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