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The Day Ahead: First Week of The Rest of The Year

Much like the person on a journey of self-improvement might hear a trite pep talk about today being the first day of the rest of their life, bond markets are facing a similar opportunity. They too have been a journey of self improvement, having battled back from long-term highs near the beginning of November (and ultimately making it to the lowest yields in more than 2 months by last Friday).

Now they must decide if they will remain on November's positive path. Doing so would be a bigger decision compared to the last 3 weeks. November will end up looking like a **reasonably strong correction**. If bonds rally from here, however, a case will increasingly be made for a bigger picture shift in interest rate momentum.

The most recent past precedent suggests caution. Perhaps more accurately, the precedent **helps us identify what "trouble" might look like** as we cross our fingers and hope for more resilience. Specifically, in August, short term momentum (blue/red lines) had flattened out for weeks, much the same way it has recently. Once momentum ticked noticeably higher, that was the end of the summertime resilience.

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



	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 caveat about August's rally coming to an end is that September's economic data played a key role. It's really no different this time around, especially in light of Fed Chair **Powell's unequivocal assertion** that the Fed is watching incoming economic data very closely.

With all of the above in mind, **this week is a heavy hitter** in terms of econ data. Today's ISM Manufacturing is easily a "top 5" report in terms of potential market impact. Tuesday and Thursday are a bit light, relative to Wednesday, which includes ADP Employment and ISM Non-manufacturing. Friday is the heaviest hitter with the big **jobs report** (and another chance to see if wage growth continues being shy about breaking higher with more conviction).

To whatever extent the jobs report **disappoints** (especially if flat-to-weaker wage growth is part of the equation), bonds would be operating under the assumption that the Fed rate hike outlook is further moderated (i.e. weaker big-ticket data will make the Fed less and less likely to shoot for the number of hikes they previously foresaw). If the Fed communicates such things in an official context at the Dec 19th Announcement, the relatively rotten bond market year of 2018 has a good chance to end on its most positive note.

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