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The Day Ahead: How Low Can We Go?

The day begins with the December rally gathering steam, or at least maintaining the surprisingly strong levels achieved yesterday afternoon. Yields continue pushing back into the high 2% territory that they blew through on the way up back in September. **How far could this thing run** without help from economic data--chiefly, Friday's NFP?

At the moment, the rally is already pushing against the bottom of its trend channel, as seen below. There's no rule that says it cannot break below that yellow line and rally at an even faster pace, but with important data coming up, that **seems less probable** than adherence to the trend channel (the parallel yellow lines). In that case, we can be on the lookout for a day of weakness fairly soon, even if the positive trend continues.

Whenever we see a bounce, momentum technicals (specifically, the fast stochastic oscillator in blue/red below) are at risk of **flashing a warning** about an even bigger bounce. When that happens, it will be the cue for the more risk-averse clients to lock what can be locked. More risk-tolerant clients may wait for the break of the upper edge of the trend channel or of a specific yield level that we've discussed as being a key pivot point in the past few weeks (3.03 or 3.08% most likely).

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
Market 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

If you were wondering what the teal line is, the following chart clears that up. This is simply the longer-term trend line showing the gradual weakness in 2018. If the rally manages to continue, that would be a logical place to see it fight for its survival. Breaking through would be **highly encouraging**, but would also result in **higher volatility** (because it would suggest traders were **scrambling** to unload **short positions**, thus leaving bonds open to be re-shorted after the rally runs its course).



On a final note, keep in mind that **tomorrow is a holiday** for bonds (Bush memorial). This adds some uncertainty to the mix and could create seemingly random tradeflows. In other words, a certain portion of today's trades may be position-closing, only to be re-opened on Thursday.

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