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The Week Ahead: Shutdown Data Finally Starts to Flow as Next Shutdown Looms

The two key fiscal issues at the moment are the trade deal with China and the expiration of temporary government funding at the end of this week. Between those two, the trade deal is **by far and away** the bigger deal for markets. The shutdown is still important, however, due to its impact on economic data at a time when economic data is being watched incredibly closely.

Of the reports that were silenced by the shutdown, Retail Sales was probably the most missed. After all, December tends to be sort of a big month for such things, and that's the data we'll finally get on Thursday. That's the week's **only top tier report**. It's also the first report of any significance as we doubt anyone would believe Wednesday's CPI on the off chance it showed inflation picking up.

Before Wednesday, the calendar is effectively silent, leaving bonds to find their way in the dark, as it were. Along that journey, there are **two points of reference** that can provide guidance. Most relevant of late has been the European bond market. Correlation between Treasuries and German Bunds (effectively the EU 10yr note) has been strong, but not perfect. Bunds have been doing their best to pull Treasury yields lower.

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

Notice from the beginning of the year through today, Bunds have easily broken to new low yields while Treasuries haven't come close. If something is holding Treasuries back (apart from the simple fact that the US is not Europe), we might look at the stock market. Correlation is reasonably strong there as well, but bonds have clearly been taking opportunities to say "no thanks" on several occasions where stocks opt for a quick move higher. Over time, this has resulted in the relative widening of the gap seen in the bottom of the following chart.



As always, it's a **balancing act** between multiple variables. If the EU tanks harder, it will be worth some gains in US bond markets. If stocks rally strongly past early February highs, we'll likely see some upward pressure in rates. In terms of organic considerations, it's hard to say how much of their normal reaction bonds will be willing to have to the Retail Sales data on Thursday. Some traders are skeptical about these shutdown-affected reports due to the risk that the irregular work environment for the government employees compiling the data will have some unknown affect on the data itself.

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