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The Day Ahead: Range Trade Likely to Dominate Heading Into Holiday Weekend

Rates were at long term highs in early November 2019. Several global economic risks were beginning to swirl at the same time. These included a slowdown in German GDP, the weakest Chinese retail sales in 15 years, Italian budget drama, and a Federal Reserve that didn't seem to care about big stock losses in October.

The Fed had released an announcement on the Wednesday before Veteran's Day weekend. That trading day saw 10yr yields hit 3.25% and they never went any higher after that. In fact, they mostly went lower--especially when the stock sell-off kicked into higher gear in December.

All of the above made November and December the best 2-month stretch for rates in more than 2 years. When rates rally that aggressively, they usually take a break and move sideways before deciding if the move will continue or if they will bounce. January and February have been "break time" in that regard.

While rates have taken a fair amount of guidance from stock market momentum, it's important to note that the bond market isn't afraid to do its own thing even as stocks continue higher. Part of the reason for this is the late January Fed Announcement.

Because the Fed was so "friendly" (talking about stopping rate hikes and balance sheet normalization), it was taken as good news for both stocks and bonds. This resulted in the divergence seen in today's chart. Since then the consolidation in bonds has been exceptionally well-defined. This gives us clear boundaries to watch for more bounces (red circles). Those bounces could be more frequent as the range narrows.

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

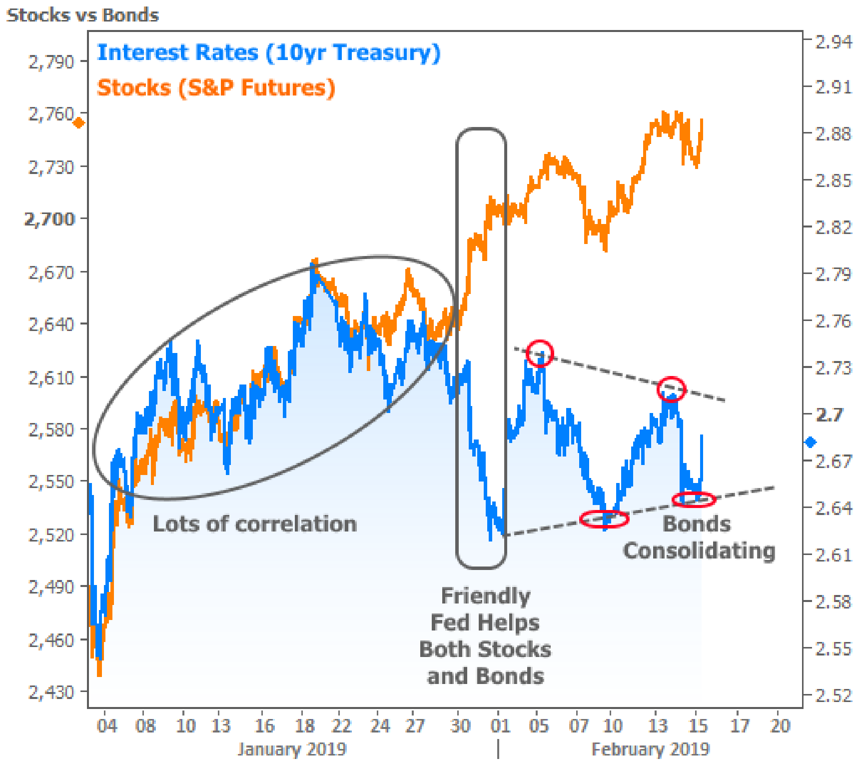
Pricing as of: 9/1 7:34PM EST

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



A break outside of those dotted lines won't necessarily be a big deal, although it may signal a predisposition in that direction. The dotted lines simply speak to a ramp up in uncertainty about the next big market movement. Markets will likely have enough new information to make decisions about such moves by mid March.

Between now and then, any break of the dotted lines (and they'll HAVE TO break before then, because they'll run into each other before then) means we'll shift to viewing a slightly wider and perfectly flat sideways range. The first 2 lines of defense would be at 2.62 and 2.75. The wider range would run from 2.55 to 2.82.

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