Stephen Moye
Sales Manager/Senior Loan Officer NMLS: 268619/CA-DBO268619, New American Funding Corporation. NMLS: 6606, Equal Housing Lender Licensed by the Department of Business Oversight Under the California Residential Mortgage Lending Act CA-DBO268619 Corp. NMLS: 67180 Equal Housing Lender
1615 Murray Canyon Road #1050 San Diego, CA 92108

Office: 619-309-1678
Mobile: 619-895-8128
Fax: (619) 793-1026
stephen.moye@nafinc.com
View My Website

The Day Ahead: Closer Look at Precedents For The Next Big Move

Yesterday, I mentioned that it was rare to see short-term momentum technicals consolidate in the center of their "overbought vs oversold" range. This refers to a fast stochastic oscillator--one of many ways that traders apply math the a time series of trading levels in order to more closely examine significance and probability. In short, when the stochastic lines are over their ceiling or under their floor, that particular market is thought to be overextended. The typical conclusion is that momentum is building for a move in the opposite direction.

Of course **this sort of witchcraft** is far from a reliable predictor of the future. Still, when we consider the messages from momentum indicators in concert with a multitude of other analysis tools, we may be able to think and talk about the bond market in a slightly more intelligent way. For today, let's finish exploring the rabbit hole I alluded to yesterday (those "rare" consolidation in fast stochastics). It's much easier to see them on a chart than it is for me to explain them in words.

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

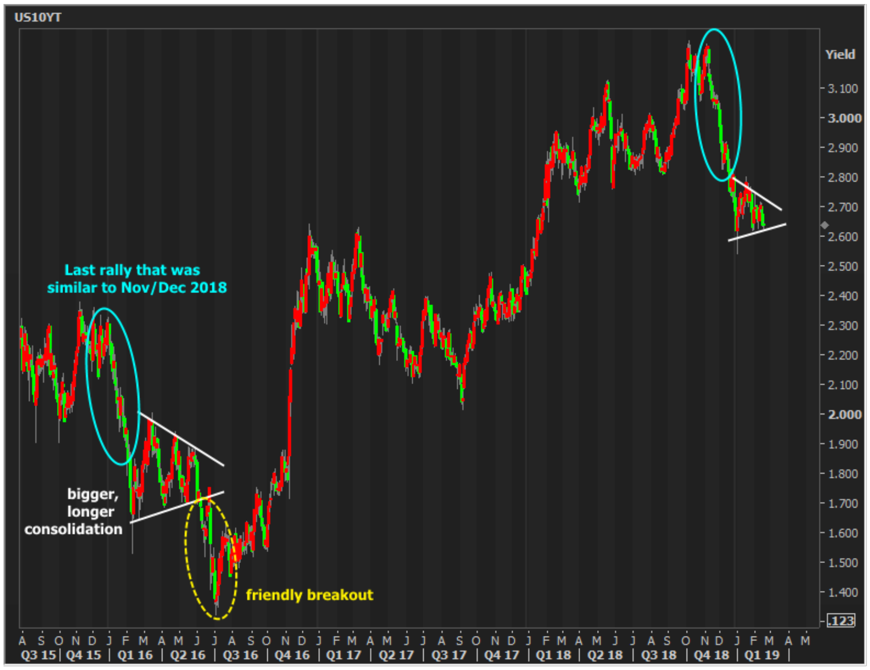
	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-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

As the chart shows, there are only two recent examples of such behavior as we're seeing now. Even then, the only major similarity is in stochastics. This is one of the reasons I don't like putting much stock in technicals as predictors of the future. Simply put: present circumstances are **rarely similar enough** to past precedents to draw reliable predictive conclusions. Moreover, sometimes the past precedent is more easily seen in the movement of yields themselves and best described in words (as opposed to technicals).

For instance, I think 2016 is a far better precedent for the current environment than the examples in the previous chart. It began with a big rally that followed a year of selling pressure (much like 2019). The rally covered a similar amount of ground and, like 2019, gave way to a sideways consolidation pattern. Granted the consolidation was much bigger and lasted much longer than the current version, but there's **still plenty of time** for the current version to widen its boundaries cut a similar path.



If we go back even farther, we can see examples that share deeper similarities with 2019. The selling spree in early 2009 was written off as a correction to **biggest**, **sharpest** bond rally in decades (first teal circle), but the return to those long-term highs was more threatening (much like the end of 2018). From there, yields rallied to their best levels in more than a year before consolidating and breaking lower two times.

Jumping back to the present, the current rally has also taken yields to their best levels in more than a year after hitting "more threatening" highs than we've seen in a long time. The first consolidation is happening right now.

Just because yields continued rallying in 2010 **doesn't** mean we're guaranteed a similar outcome in 2019. If anything, the past precedent serves as a reminder that anything can happen for those who think they know what's going to happen. More than anything, however, as I look back at these precedents, in each case I see market movement that's underpinned by some fundamental motivation.

In other words, it's **not** the technicals that are causing any of these moves. Technicals can really only take credit for shorter-term bursts of momentum or for helping us identify moments when the bigger-picture stakes are getting high. Rather, it was the collapse of core inflation and the warning shots of the European financial crisis that drove 2010's rally. In 2016, it was the rise of Brexit that sparked the rally at the beginning of the year and the uncertainty over the Brexit outcome that led to the epic consolidation. Finally, the Brexit vote resulted in the friendly breakout.

Similar fundamentals are in play today. In fact, Brexit continues to be one of the market's key considerations, especially in light of the spotlight on European economic weakness. The Brexit deadline is one of the big uncertainties waiting for clarity in March. Others include US/China trade policy, Fed policy, and of course, good old-fashioned economic data. The outcomes of these events stand the best chance to inform the next big move for bonds. In order for the **friendliest** outcome for rates, we'd need to see the **unfriendliest** outcome for the global economy. Pick your poison.

Subscribe to my newsletter online at: http://housingnewsletters.com/stephenmoye

thanks for visiting this site

thank you for coming to website. Having been a loan officer for 20+year...I know first hand how important it is to stay on top of the news and event that effect mortgage rates, regulation, and program guidelines. Let this web site be a resource for you.

New American Funding CA-DBO268619 Corp. NMLS: 6606
Equal Housing Lender
Licensed by the Department of Business Oversight Under the California Residential Mortgage Lending Act

Stephen Moye