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The Day Ahead: Week's First Significant Economic Data as Bonds Build Ceiling

It may seem a bit counter-intuitive to be talking up economic data in light of last week's bond sell-off. Friday saw weaker-than-expected consumer spending and sentiment as well as the lowest ISM Manufacturing PMI in more than 2 years. Nonetheless, bonds continued to weaken.

Rather than read those events as a suggestion that "data doesn't matter," I think it's more fair to say that markets were preoccupied with other things--not the least of which being a 3-day snowball move that was arguably pushed along by economic data on the first 2 days.

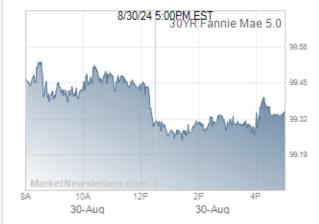
While we may continue to see such moves, and while there are several non-data headlines that could have a big impact on rates (on topics like US/China trade or Brexit, for instance), we definitely **shouldn't assume** this market is tuned out from econ data. In fact, I'd argue that last week was an exception to what should soon prove to be the rule: that econ data will set the tone for the next big move in rates.

When we talk about "big" in the current context, we're talking about 10yr yields moving to 3.0% or 2.5%. One of those two options is highly likely this Spring. Between now and then, we can watch more intermediate levels as mileposts for the range. At the moment, yields are just below the 2.75% technical ceiling. This would be the top of a slightly wider range with 2.63% being the lower boundary.

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: 9/17:34PM 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		

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	Rate	Change	Points
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65
Pates as of: 9/20			

Momentum indicators suggest we've seen just enough weakness recently for bonds to be willing to rally. Whether or not they actually do rally may depend on today's ISM Non-Manufacturing data--this week's **2nd most important** economic release behind Friday's NFP.

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