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The Day Ahead: Risky Rate Floor Still Has Ceiling Potential, But It's a Long Shot

Yesterday saw bonds tag their best levels since early January (Jan 3rd was the only day in over a year where yields closed any lower) on a combination of several events. Those events included weaker inflation data in the morning, a strong 10yr Treasury auction, and some back-and-forth headlines surrounding Brexit.

We came into today **expecting to see a bigger reaction** in this morning's Durable Goods data, but that has quickly proven to be a non-starter. Perhaps we can rationalize this by observing Cap-Ex (the core component of the Durable Goods data that strips out defense and aircraft spending) remaining at lower levels than it was 2 months ago, despite bouncing back somewhat in the most recent report.

Rather than rationalize an absence of reaction to today's data, we can also simply consider that financial markets are trading lightly heading into tonight's new brexit vote. All this brexit stuff is hard to follow, so **here's an oversimplification**: yesterday's vote was on whether or not to proceed with Theresa May's compromise deal (which didn't seem likely based on early morning news). Tonight's vote will decide whether Britain goes back to the drawing board to try to tweak a compromise deal or simply gives up, thus proceeding to a "no-deal" brexit.

It's that "no-deal" brexit that **markets are concerned** about. Granted, this is definitely not a likely outcome by any stretch, but if it were to happen, it would be very good for bonds. The fact that it's an outside possibility may account for Treasuries' ability to hold just under the floor of the recent range (2.62-2.63%).

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

The brexit vote should start coming in at **3pm ET**. 2 hours prior, we'll get the last Treasury auction of the week with the 30yr bond. If yesterday's 10yr auction was any indication, traders could also be hesitant to sell too many bonds before seeing where 30yr demand falls. To clarify, yesterday's auction was **STRONG**--especially in light of their position on the range and the absence of any AM weakness. From a trader's perspective, selling too eagerly this morning creates risk of being offside in the event of another strong auction.

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