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The Day Ahead: What Do Bonds Care About Right Now, And Can The Answer Help Us?

It's no mystery at this point that the US bond market has exited its steep, directional, and super friendly move to long-term lows over the past few days. While yields are starting the day in slightly better shape than yesterday, they're still high enough to keep that **negative confirmation intact** as we head into the rest of the week's data and events.

Looking at a medium-term chart of 10yr yield candlesticks (hourly), we can see most of the relevant **technical considerations**. The dotted teal line highlights that steep/directional/friendly trend I just mentioned, while the yellow lines highlight the broader trends that are converging heading into Friday's NFP. Meanwhile, the horizontal lines remind us of the pivot points we should be keeping an eye on. Note the break above 2.47% yesterday followed by numerous overnight bounces today.



The first takeaway is that we'd need to break below 2.47% in order for bonds to be fighting back against recent weakness in any major way. Beyond that, breaking and holding above 2.50% would set us up for a **showdown with 2.55%** by the end of the week. That would roughly coincide with the upper yellow line.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.35	-0.16
MBS GNMA 5.0	99.91	-0.04
10 YR Treasury	3.9039	+0.0424
30 YR Treasury	4.1932	+0.0468

Pricing as of: 8/30 5:59PM EST



Average Mortgage Rates

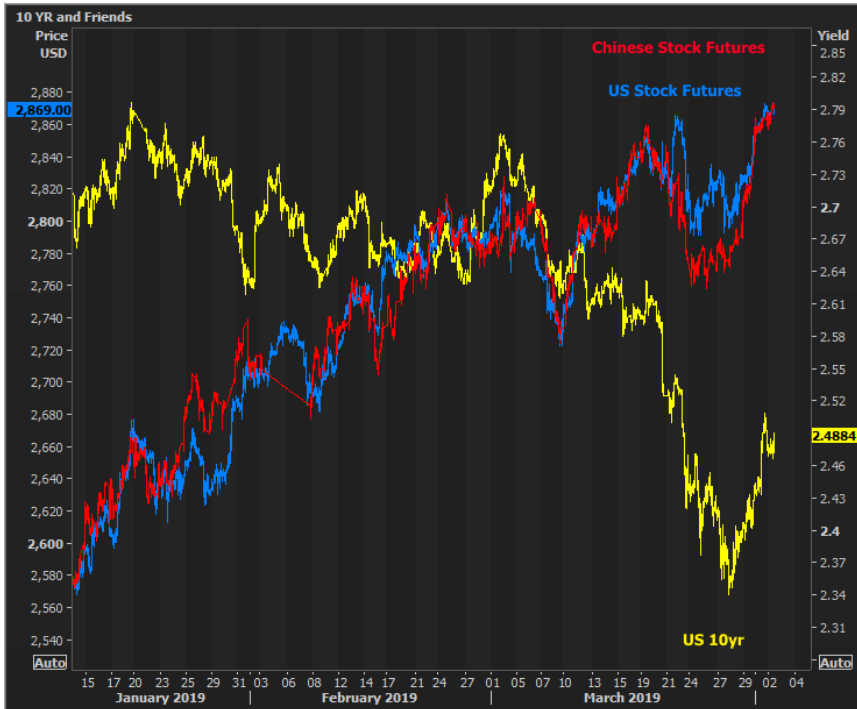
	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85

What does it all mean? Simply put, if 2.55 and the upper yellow line are broken as of Friday mid-day, it would **not** mean anything good for rates. Conversely, if yields break below the lower yellow line--and especially if they do so with a move under 2.47%--it means **something much better**, or at least much less troubling.

	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
less troubling.

So what will it be that moves markets? Yesterday we talked about Chinese manufacturing data in the overnight session, and while there really wasn't much else to point to at the time, here's how bonds have been responding overall to Chinese market movements:



In contrast, here's how Treasuries interact with European bonds:



Don't mistake **correlation for causality** here... It's not as if German Bunds are dictating US bond volatility. That said, both tend to interact with one another, taking and giving cues depending on the day. This week, we'd be safer to assume it's Treasuries in the driver's seat in light of the big econ data schedule. Bottom line: Treasuries are likely going to place the greatest emphasis on any big beats/misses in the econ data--especially ISM services tomorrow and NFP Friday.

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