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: Hopes And Fears as Rates Approach Key Ceiling

We've talked a lot about 2.55% in 10yr yields as an important floor for most of Q1 2019. It was broken after the Fed's March 20th announcement. For more than a week after that, bonds didn't look back. In the past week, however, the shine has clearly started to come off the rally--so much so that 2.55% is **quickly** coming back into focus. This time, it acts as a ceiling.

The mere presence of a "ceiling" in rates **doesn't** have much bearing on what rates will do next. Sometimes we get a friendly bounce well before a ceiling is reached. Sometimes we see rates pressed up against a ceiling multiple times before finally giving up and heading back down. Sometimes the ceiling is crushed as if it was never even there.

At the moment, bonds are approaching this ceiling as if they are well aware of its existence. The pace of selling pressure has generally diminished every day this week. Remember asymptotes from pre-calc in high school? Never thought they'd come into play in real life? Me neither, but here we are with yields in the **early stages** of an asymptotic approach to 2.55%. That's represented in the green "hopeful" line below.

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

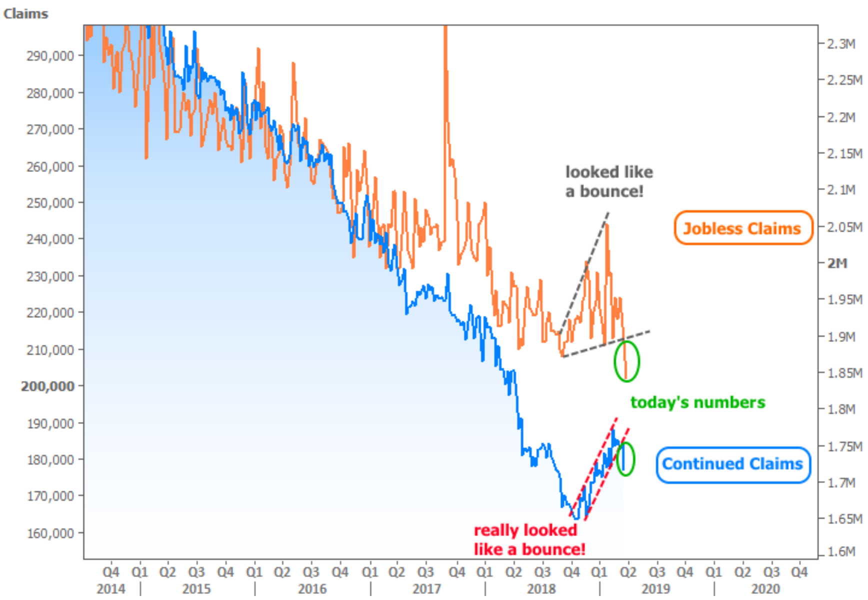
	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%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

	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

If bond trading were based purely on chart patterns, I'd tell you we have a **very good chance** of seeing the green line play out for a variety of reasons (previous technical bounce at 2.55%, big volume pivot past the same level following big news from the Fed, and of course the asymptotic approach currently). But bonds are also interested in economic data and other events with economic implications (like US/China trade deals, brexit, etc.).

There was justifiable concern about a shift in the econ data in recent months. That's easily seen in the Jobless Claims **bounce** in the following chart (which happened before the government shutdown). Now this morning's Claims numbers suggest late 2018 was a temporary blip and not the start of some glacial uptick in joblessness that speaks to an impending recession.



Fortunately, this is only one report. If bonds had to make bets based on this labor market reversal, we'd be looking at much higher yields this morning. That said, bonds were quite willing to react to this report (one that hasn't been a market mover for years until just recently). The takeaway is that it continues to make sense for us to keep a close eye on the incoming economic data and the market's subsequent reaction. If the data suggests global growth fears are abating, f**orget the asymptote** and look out for the more "fearful" scenario.

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