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The Day Ahead: Bonds Waving Long Goodbye to Trend, Hoping For Friendly Fed

In the day just past, bonds continued moving higher in yield, adding distance between themselves and the unexpectedly low levels seen during the trade war rally. Actually, I'll stop myself there because if I were to read what I just wrote, I might yell at the screen a bit. Reason being: it's sort of stupid to say "unexpectedly low levels." We shouldn't ever really EXPECT bond market levels to be in any particular place. They will go wherever they're going to go, and that's exactly where we should expect them to be. As soon as too many traders start expecting bonds to do one thing, they become vulnerable to a move in the other direction.

So let's just say the timing and the pace of the bond market rally in the first few weeks of May ran counter to prevailing short-term momentum, and potential technical bounce seen by the end of Fed week on May 3rd. All that having been said, I do think it's fair to imagine that we wouldn't have seen such a rally were it not for the unexpected flare-up in US/China trade-related tensions.

In any event, the rally that had been occurring for those particular reasons has arguably run its course as of this week, and the "all other things being equal" conclusion would be that rates should move back up a bit. Technicals are generally supportive of such things even though today begins with moderate gains. Unless today ends with a rather large rally, we'll still be in a general uptrend, and the stochastics are still arguing a better case for weakness than strength.

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

In terms of today's key events, we have only the FOMC Minutes at 2pm to motivate any major reaction in bonds--at least when it comes to events that are on the calendar. There is always SOME chance that any official communication from the Fed will produce a visible reaction in bonds. Today is no different. But we also know that the statement was clear in pointing out a troubling lack of inflation combined with an economy that generally continues to hum right along. The biggest unknown in the Minutes will be the treatment of EU/China global economic risks because Powell said they'd died down a bit in the post-announcement press conference--2 days before Trump's tariff tweets that kicked off the 2 week tumble for stocks and bond yields. One could well imagine the Fed might not be as confident that the Chinese economic picture was markedly improving in light of the trade war developments.

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