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The Day Ahead: Pondering The Next Move as Data Picks Up

In the day just past, bonds put in their biggest day of weakness since mid-April on what looks to have been a purely **technical** correction. It was an ideal day for such things considering the extreme gains on Monday and the absence of any significant economic data. 10yr yields moved back up to the nearest technical ceiling on our list, 2.12-2.13%

In the day ahead, bonds will have more significant economic data to digest with the 10am ISM Non-Manufacturing report being the headliner. Bond traders will also be trying to get a read on the consensus about the next possible move--especially after yesterday threatened to be the first part of some sort of bounce.

Keep in mind that such bounces are a necessary byproduct of strong momentum and recent momentum (past 3 weeks) has definitely been strong). It's not a comfortable decision to see those sorts of bounces and decide to remain optimistic or even neutral about the outlook for MBS/mortgage rates in the short term, but today's early gains are proof that the bounces are not perfect indicators of momentum shifts.

So what, then, should we be on the lookout for when it comes to a potential momentum shift? Unsurprisingly, we can look at actual momentum metrics like the stochastics at the bottom of the following chart. Until they're moving back above the lower lines, momentum has yet to shift. We can also simply look at outright trading levels. With that in mind, the 2.12-2.13% ceiling is the first line of defense. After that, the "gap" up at 2.19-2.22% would be a bigger deal.

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

The other way to look out for signals about the next big move is to use the event calendar. With that in mind, we have a very important Fed meeting coming up on June 19th. It wouldn't be a surprise to see bonds begin to consolidate leading up to Fed day.



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