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The Day Ahead: Why Stocks Have Been Willing to Diverge From Bonds

In the day just past, bonds maintained a range that fell **almost perfectly inside** the range from the previous day. The same was true of the previous day (Tuesday) and is also true so far today. This sort of momentum builds a case for a sideways consolidation, which is something we tend to see for 2 reasons more often than not. The first would simply be that bonds are coming off a very big move in the month of May and need time to chill before figuring out what they're going to do next. The second would be that bonds are approaching some big-ticket event that's likely to set the tone for the next big move.

In the day ahead, we'll have the chance to **rule out** the possibility that the European Central Bank announcement and press conference is the big-ticket event in question (it's probably not). That will shift focus most immediately to tomorrow's NFP. The odds-on favorite, however, would be the June 19th Fed Announcement and press conference. A month ago, there was effectively **no chance** the Fed would cut rates at this meeting. Last week (just before the Mexico tariff news), there was a 10% chance. Today it's closer to 25%--**just enough** to raise the possibility of a surprise cut, or to disillusion some traders in the event the Fed stays the course.

In all cases, the technicals are **good to watch** when we're waiting for a consolidation to run its course. The most immediate overhead ceiling is 2.13% in 10yr yields with 2.19% being a slightly bigger deal in terms of significance (i.e. it would be a more compelling piece of evidence in favor of weakness, and not only because it's a higher yield, but more so because it's where the overnight "gap" appears on the following chart).

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

Bonus Chart! Some thoughts on why bonds have been willing to diverge from stocks this week (hint: stocks like rate cuts, and this week marked the first real possibility of a rate cut in the coming meeting).



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