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The Day Ahead: Bonds Remain Open to Ideas as MBS Roll

In the day just past, bonds initially gave the impression that they were continuing to correct toward higher yields after weekend news of a trade "deal" with Mexico. Markets weren't as interested in the "deal" part (because nothing much changed from the preexisting arrangement) but rather in the fact that the tariffs Trump announced 2 weeks ago would be on hold. Despite initial weakness, bonds rallied steadily throughout the day as big buyers stepped in to snap up the higher yields. A strong 3yr Treasury auction helped.

In the day ahead, bonds will get an even more relevant Treasury auction to digest (10yr) at 1pm as they continue to decide what to do between now and next week's Fed announcement. This week's economic data can have a bit of impact along the way, but as we saw yesterday, the market is largely susceptible to tradeflows (i.e. traders trading for traders' reasons, without concern for data/events). The mentality would be something like this: "nothing that happens this week will have a major impact on my strategy in the bigger picture, so I'm more concerned with being in the right position for next week's Fed announcement and more importantly for how everyone else looks like they're going to trade it."

In the bigger picture, bonds have rejected a break back above "pre-Mexico" levels as of yesterday. Overnight strength helps confirm that bounce. 2.147% remains a key overhead ceiling while 2.12-2.13% would be an even better ceiling if yields can manage to move and hold below it.

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 MBS-specific news, today is a "roll day" for Fannie/Freddie 30yr MBS. That means we're looking at July coupons on the chart today whereas yesterday was the last day of June coupons. Because July coupons begin paying investors 1 month later than June coupons, they've always been a bit cheaper to buy (i.e. lower prices). Switching our view from one to the other makes it LOOK like prices have dropped (or merely failed to keep pace with Treasuries) on the charts even though they haven't.

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