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## The Day Ahead: Momentum Shift Confirmation

In the week just past, bonds rallied hard into the Independence Day holiday. 10yr yields hit fresh multi-year lows before getting slammed by a jobs report that came out much stronger than expected. The resulting weakness brought them in line with the highest levels from the previous week. The losses also changed the shape of certain technical patterns that help us track bond market momentum. One of the simplest examples is in slow stochastics (green/teal lines in the chart) where a break above the lower line signals a shift out of a bullish trend.

In the week ahead, bonds will consider the various outcomes of such a shift. They're **not always purely negative**. The last 2 examples offer some clarity. In both cases, the prevailing bullish trend indeed took a break, but much of the overall rebound was already in place by the time momentum indicators confirmed the shift. The teal horizontal lines show yield levels at the time of the confirmation (white vertical lines). The current horizontal line is at 2.065%.



## 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
<b>Mortgage News Daily</b>			
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
<b>Freddie Mac</b>			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
<b>Mortgage Bankers Assoc.</b>			
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

A **warning** about the chart above: our recent available precedent doesn't do a good job of representing more negative possibilities. For that, we can go back to the next most recent momentum breakout in 2017 where the same pattern preceded a far more sinister shift in momentum.

	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 **takeaway** is that the technicals are only telling us that the positive momentum has leveled off for now. They don't currently guarantee anything about the next move. Notably, in 2017, the ferocity of the rebound had almost everything to do with an about-face in market sentiment as it related to the Trump administration's ability to pass the tax bill. In other words, it **wasn't** the technical indicators that created new momentum (it never is when it comes to the bigger picture).

There's no reason it **shouldn't** be the same this time around, but rather than a tax bill, we have trade wars, global economic data, and the central banks' responses. There won't be much to digest in terms of trade or economic data this week, but we will get more insight on the central bank response in **Fed Chair Powell's semi-annual congressional testimony** on Tuesday and Wednesday morning. Those are the key flashpoints for this week (particularly Tuesday, as the Wednesday session often doesn't bring any important questions that weren't already asked in the previous session).

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