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The Day Ahead: Ducking, Covering, and Waiting For Sell-Off To Run Its Course

In the day just passed, bonds slipped into a bit of a capitulation sell-off following slightly stronger CPI data and a much weaker 30yr bond auction. In and of themselves, these events might not have justified the amount of selling seen, but timing played an important role.

Bonds were ready to make bigger moves by the end of this week after having consolidated heading into last week's jobs report. It already looked like they were breaking out after the stronger jobs data, but yields managed to hold just under the key ceiling of 2.07% after the first day of Powell testimony this week.

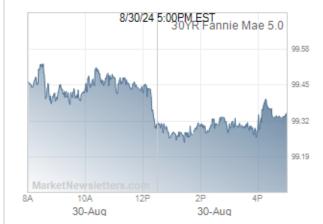
Could it be that we were seeing another head fake--this time toward weaker levels--only to bounce back into the safety of the range? No... the post-NFP selling has been real, and yesterday did more than any other recent session to confirm that.

In the day ahead, we'll take a deep breath and take the next step toward accepting the current reality: bonds have shifted into a selling trend. It could last anywhere from hours to months, but is more likely to be best-measured in days or weeks. We're arguably several days in already, and that increasingly brings momentum indicators toward levels that suggest bonds are more prepared for a show of support. In the chart below, when the stochastics (bottom two sections) hit oversold levels, that's the first step in suggesting a bounce.

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		

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	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			

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