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The Day Ahead: OK, NOW Is It Time For a Bounce?

Enquiring minds want to know... In fact, even inquiring minds are fairly curious as to whether or not the pleasantly surprising bond market rally will soon **run out of steam** for more than a day or two. When it comes to most financial markets, the longer a trend persists without a meaningful correction, the more likely we are to see a correction. Technicals suggest it's beginning to be about that time for bonds.

To be specific, technicals suggest it's beginning to be **about that time** for stocks. That's what we care about at the moment because that's what's driving the bond market rally. Fortunately, stocks are **far** less well-behaved when it comes to technicals, so the mounting evidence supporting a bounce could all be meaningless. Still, here's what we're up against.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.68	+0.29
MBS GNMA 6.0	101.38	+0.14
10 YR Treasury	4.3682	-0.0702
30 YR Treasury	4.5288	-0.0562

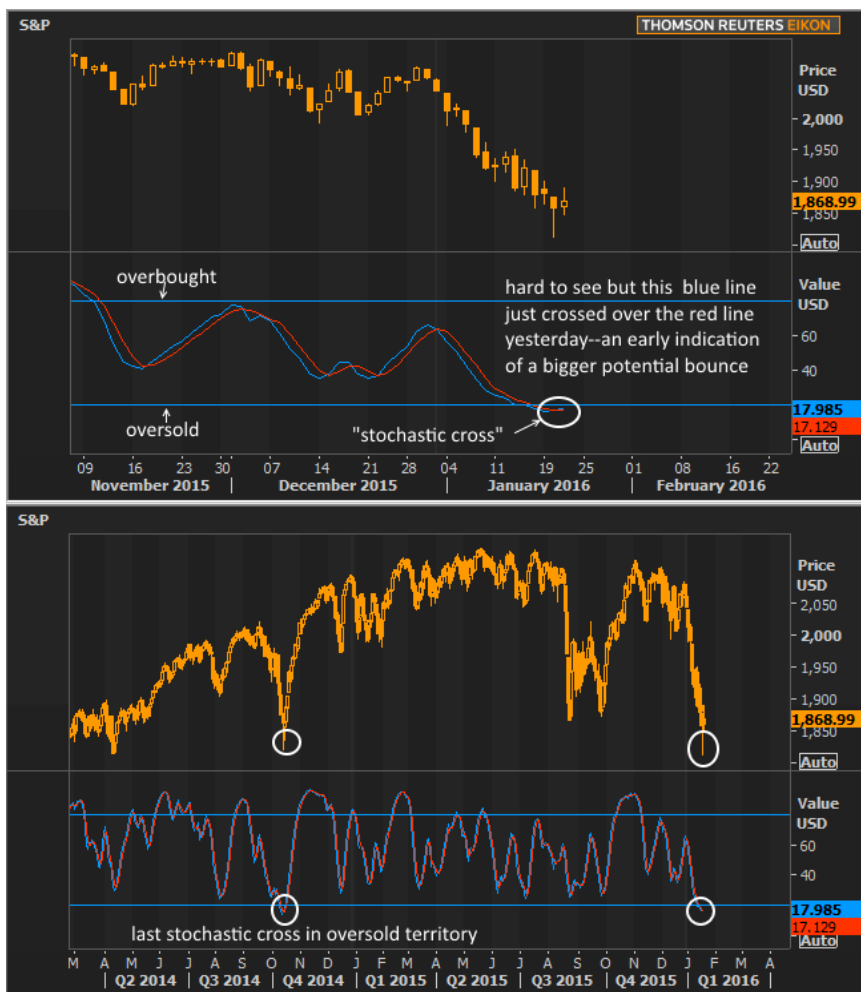
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Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.11%	-0.01	0.00
15 Yr. Fixed	6.61%	-0.01	0.00
30 Yr. FHA	6.58%	-0.01	0.00
30 Yr. Jumbo	7.37%	0.00	0.00
5/1 ARM	7.29%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	7.09%	-0.35	0.00
15 Yr. Fixed	6.38%	-0.38	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 5/14



There are several technical studies that make similar cases, but stochastics (seen in the chart above and below) capture both the 'overbought' and 'oversold' signals, as well as the early shift in momentum (with the stochastic lines crossing one another). It goes without saying that the mere presence of a stochastic cross is **NEVER** a guarantee that trading will head back in the other direction, but when trading heads back in the other direction, there will **ALWAYS** be a stochastic cross happening just prior.

Treasuries have their own stochastic cross at the moment, which only adds to the anticipation and anxiety. In this case though, the last stochastic cross in overbought territory didn't put an end to the rally. Bonds went on to make **even lower lows** more than 2 weeks later. Granted, that was a different situation with different market moving considerations (ECB QE announcement).



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