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## The Day Ahead: Why Big Events are Scary at Current Levels

"Stop me if you've heard this one before. There's this epic long-term inflection point defined by 10yr yield levels 1.84-1.86. It stretches back to 2011, when it acted as uncanny resistance for almost the entire year. It acted as similarly uncanny support for most of 2012, and had been all but forgotten until late 2014. That's when the wild October 15th rally stopped at 1.86 after the day opened at 2.20! What are the chances that Treasuries move that far and land right on an important technical level? Then again, that's why technical levels are important. There's some magic in there that we'll never be able to define, but we know magic when we see it."

All of the above is from [a post in April 2015](#). During that time, yields had been smacking into a 1.84-1.86 range and were ultimately unable to break through. We ended up all the way back up at 2.50 by June before eventually pushing back down and breaking below this technical zone in February 2016.

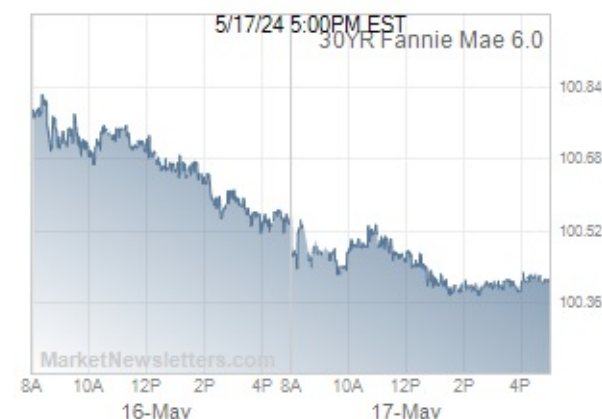
Before that, 1.84 had served as the dividing line between the **magical, golden-era of low rates** and everything else. Especially during late 2011 and most of 2012, yields were HIGHLY unlikely to break through that zone. It was a true inflection point! When they did break through, we saw a minimum follow-through of 20bps in a matter of days. In other words, a confirmed break of 1.84 is good for at least a move to 2.04 next week--or so history would suggest.

**But it gets worse.** Short, shallow breaks of 1.84 during rallies--those that only take closing yields 20bps lower or less--tend to result in much bigger sell-offs after yields move back above 1.84. And although yields did make it down to 1.53 on Feb 11th, they CLOSED the day at 1.644, making the most recent break fall into the "short, shallow" category, compared to the 2012 break.

## MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.40	<b>-0.15</b>
MBS GNMA 6.0	100.78	<b>+0.04</b>
10 YR Treasury	4.4223	<b>+0.0454</b>
30 YR Treasury	4.5610	<b>+0.0549</b>

Pricing as of: 5/17 5:59PM EST



## Average Mortgage Rates

	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.09%	<b>+0.07</b>	0.00
15 Yr. Fixed	6.56%	<b>+0.03</b>	0.00
30 Yr. FHA	6.62%	<b>+0.07</b>	0.00
30 Yr. Jumbo	7.35%	<b>+0.04</b>	0.00
5/1 ARM	7.30%	<b>+0.06</b>	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	7.02%	<b>-0.42</b>	0.00
15 Yr. Fixed	6.28%	<b>-0.48</b>	0.00
<b>Mortgage Bankers Assoc.</b>			
30 Yr. Fixed	7.08%	<b>-0.10</b>	0.63
15 Yr. Fixed	6.61%	<b>+0.01</b>	0.65
30 Yr. FHA	6.89%	<b>-0.03</b>	0.94
30 Yr. Jumbo	7.22%	<b>-0.09</b>	0.58
5/1 ARM	6.56%	<b>-0.04</b>	0.66

Rates as of: 5/17



So **what does confirmation look like?** How will we know if we're dealing with a break? It's combination of two things and the definition is a bit fluid, in my opinion. I personally look for a certain amount of follow through above 1.84 for a certain amount of time. The greater the distance, the less time I'd need to see. The greater the time spent above, the less distance I'd need to see. For instance, if yields spiked to 1.95 and held that for 1 day, that would be strong argument for confirmation. If yields only rose to 1.88-ish, I'd want to see that hold for 2-3 days before considering the break to be confirmed.

For what it's worth, in the bigger picture and longer term, **I still don't see how rates don't end up at all-time lows** some time in the next few years. But there will be corrections along the way, and some of them could be big enough to cause significant pain for those expecting easy, consistent victories. There **MUST** be convulsions when markets are coming to terms with something so reality-altering as the current narrative (i.e. currency wars, declining productivity, wealth inequality and energy costs sapping inflation potential, a global "race to zero" for short term rates, and a the subsequent "race to ridiculously low" for longer term rates like 10yr yields and mortgages).

Will NFP be the singular **nail in the coffin** if it's super strong this morning? No. We'd need to see next week's ECB Announcement at the very least. But NFP could certainly get the ball rolling if it's strong enough.

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