



## The Arizona Loan Baron

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## The Week Ahead: Rates Might Find Some Reason to Move While Waiting for Fed

Market participants had high hopes for last week's data. It stood a good chance to help inform the consensus on the Fed's upcoming policy announcement, now just 9 calendar days away. Instead, Friday's NFP ended up threading the "hike vs no-hike" needle. Or perhaps it just didn't matter, though it's hard to argue that a drastically stronger reading wouldn't have solidified a September hike. Either way, with nothing pressing in terms of data this week, we move on the Fed Announcement itself as the big nail-biter on the near-term horizon.

In these cases (where we're waiting for the big market mover), it's not uncommon for markets to resign themselves to more **passive strategies**. These typically place more importance on necessity-based trading and technicals.

In terms of trading out of necessity, there are a few common stimuli. One of the most basic is asset-allocation among money managers. For instance, if people are adjusting their 401k holdings to favor lower-risk plans, money managers **might be forced** to sell stocks and buy bonds. Asset allocation trading is always happening to some extent, but it's more of a consideration toward the end of the month.

The other common necessity-based stimulus is the **corporate bond market**. This generally creates unseen pressure on MBS/Treasuries in two ways: supply and hedging. Supply is easy enough to understand in the sense that new corporate bond issuance amounts to more competition among bond sellers, thus suggesting lower prices and higher rates. Hedging considerations are more esoteric, but the short version is that most corporate yields are based on Treasuries as an index and Treasuries are often sold during the issuance process in order to "lock in" the rate of repayment. It's similar in function to a bank selling MBS in order to lock a rate. Although these hedges can often be bought back after the fact, they create additional selling pressure first.

With that in mind, it's **not unfair** to expect corporate bond issuance to ramp up this week as it had largely been silent in the previous two weeks. Sellers may want to get in before next week's understandable increase in volatility.

The other 'passive strategy' is **cloudier**. There are several ways that technical analysis could be configured to make a positive or negative case for bonds. Here is one of each, both using the same technical study:

## MBS & Treasury Market Data

|                | Price / Yield | Change         |
|----------------|---------------|----------------|
| MBS UMBS 6.0   | 100.09        | <b>+0.31</b>   |
| MBS GNMA 6.0   | 101.03        | <b>+0.29</b>   |
| 10 YR Treasury | 4.5138        | <b>-0.0657</b> |
| 30 YR Treasury | 4.6711        | <b>-0.0579</b> |

Pricing as of: 5/3 5:04PM EST



## Average Mortgage Rates

|                                | Rate  | Change       | Points |
|--------------------------------|-------|--------------|--------|
| <b>Mortgage News Daily</b>     |       |              |        |
| 30 Yr. Fixed                   | 7.28% | <b>-0.09</b> | 0.00   |
| 15 Yr. Fixed                   | 6.75% | <b>-0.07</b> | 0.00   |
| 30 Yr. FHA                     | 6.70% | <b>-0.12</b> | 0.00   |
| 30 Yr. Jumbo                   | 7.48% | <b>-0.07</b> | 0.00   |
| 5/1 ARM                        | 7.35% | <b>-0.07</b> | 0.00   |
| <b>Freddie Mac</b>             |       |              |        |
| 30 Yr. Fixed                   | 7.22% | <b>-0.22</b> | 0.00   |
| 15 Yr. Fixed                   | 6.47% | <b>-0.29</b> | 0.00   |
| <b>Mortgage Bankers Assoc.</b> |       |              |        |
| 30 Yr. Fixed                   | 7.24% | <b>+0.11</b> | 0.66   |
| 15 Yr. Fixed                   | 6.75% | <b>+0.11</b> | 0.64   |
| 30 Yr. FHA                     | 7.01% | <b>+0.11</b> | 0.94   |
| 30 Yr. Jumbo                   | 7.45% | <b>+0.05</b> | 0.56   |
| 5/1 ARM                        | 6.64% | <b>+0.12</b> | 0.87   |

Rates as of: 5/3

The first chart is **DAILY** 10yr yield candlesticks (the fat part is the open to close move, with red being higher and green being lower. The thin part is the day's total range) with a slow stochastic oscillator. This is a simple momentum indicator. When the red line crosses below the yellow line, momentum is shifting toward lower rates and vice versa.



The next chart is the **exact same technical study**, but this time calculated based on **WEEKLY** trading levels (Friday's closing yield). Here, the conclusion is completely different, as it would suggest we're just now 1 week in to at least a 1-month trend toward higher yields. The cycles between the points where the stochastic lines cross each other have been highlighted (red = higher rates suggested by technicals, Green = lower).



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## The Arizona Loan Baron

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I would appreciate the opportunity to share with you my extensive mortgage lending experience. My client focused approach has allowed me to build long lasting relationships and partnerships throughout Arizona. I know this market. I live here and work here. Please allow me the opportunity to be your mortgage lending partner.

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