



The Arizona Loan Baron

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The Week Ahead: Light Data Ahead of Fed Week; Yellen's Chance to Address Jobs Report

- Very light economic calendar this week
- Fed Announcement next week
- Yellen speaks later today (jobs data will invariably come up)
- bond yields already near range boundary, but this time with momentum only just beginning to turn

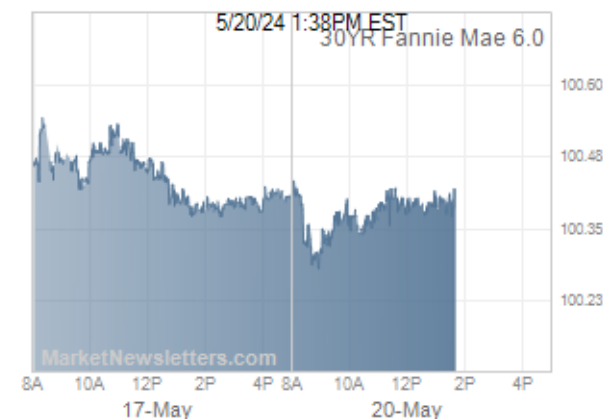
There are two measures of momentum that I've been including in most of 2016's chart: fast and slow stochastics. These technical studies that examine where yields (or prices) are currently trading relative to an arbitrary recent range. The closer today's yields are to recent lows, the stronger the momentum indication will be. In fast stochastics, low yields generate more immediate momentum signals. In slow stochastics, it takes more successive days near low yields to generate positive momentum signals.

In each of the last two rally cycles, yields have hit the bottom end of their trend with stochastics doing the same thing. **In both cases**, fast stochastics had already made it to their strongest levels while slow stochastics were getting fairly close to their best levels. Both of these instances can be seen in the vertical white lines in the following chart. This time around, however, the momentum indicators are just starting to turn as yields are already hitting the lower end of the range.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.39	-0.01
MBS GNMA 6.0	100.77	-0.01
10 YR Treasury	4.4345	+0.0122
30 YR Treasury	4.5711	+0.0101

Pricing as of: 5/20 1:38PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.10%	+0.01	0.00
15 Yr. Fixed	6.57%	+0.01	0.00
30 Yr. FHA	6.64%	+0.02	0.00
30 Yr. Jumbo	7.35%	0.00	0.00
5/1 ARM	7.30%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.08%	-0.10	0.63
15 Yr. Fixed	6.61%	+0.01	0.65
30 Yr. FHA	6.89%	-0.03	0.94
30 Yr. Jumbo	7.22%	-0.09	0.58
5/1 ARM	6.56%	-0.04	0.66

Rates as of: 5/20



The implication is that **one of two things must happen**. Either the trend in momentum will continue (thus pulling yields below the range boundary), or the trend in yields will prevail (thus ending the repetitive trend in momentum). If yields win, it would confirm that traders are focusing on outright technical levels. This would mean more resistance to the idea of making new lows for the year. If momentum wins, it means there is less resistance to the idea of making new lows for the year.

The Fed will soon enter its 'blackout period,' meaning no Fed speeches that address monetary policy within one week of a Fed policy meeting. That still leaves today as a speech opportunity, and as such, we'll be able to see what Yellen thinks about last week's employment data. Other Fed officials are **already on the record** today saying that the report was weak enough to potentially affect the Fed's decision-making process in June. If anything, it puts more emphasis on the next jobs report to confirm or reject the notion that labor markets could be softening.

On a final note, there is currently very little probability of a June rate hike priced into bond markets. Yellen won't likely harp on the likelihood of a June rate hike, but if she says anything to keep that threat alive, **bonds probably won't like it**. On the other hand, if she reiterates that last week's jobs data threw a wrench in the Fed's rate hike outlook, bonds can probably find some more room to rally.

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The Arizona Loan Baron is at your service!

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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