

THE FEDERAL SAVINGS BANK

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"Great analysis by Matt Graham on bond markets and the outlook for rates!"

The Day Ahead: Bond Markets Hoping Friends Don't Leave The Party

Bond markets have been **partying pretty hard** so far in 2016, though the party has been dying down since mid February. That process began with stocks and oil prices heading for the door on February 11th. More than any other day, that was when the party got the craziest.

On February 11th, German **Bunds were doing keg-stands** and US bond markets were holding their feet and cheering. Stocks and oil were intrigued by this raucous behavior. While they were the original hosts of the party, the Europeans showed up and things got crazy.

But it was **all a little too crazy** for stocks and oil. No keg-stands for them, and they've been inching toward the door ever since. This went a long way in helping US bond markets sober up, but being better friends with European bond markets, they weren't ready to leave the part as long as Europe was going strong. Conversely, as soon as Europe showed signs of fading, US bond markets were definitely ready to Kwik-E-Mart for some Gatorade and Advil.

As of March 1st, Europe could **no longer** maintain its partying pace. It tried once again to get the party going over the past week and a half, but couldn't regain its former glory. Just yesterday, it tripped and broke a lamp. Party foul!

Now there's a **real risk** that this epic party is winding down for good. If Europe leaves, US bonds markets will be one step ahead, trying to catch up with their other friends, stocks and oil. Here's how it all looks in a chart:

MBS & Treasury Market Data

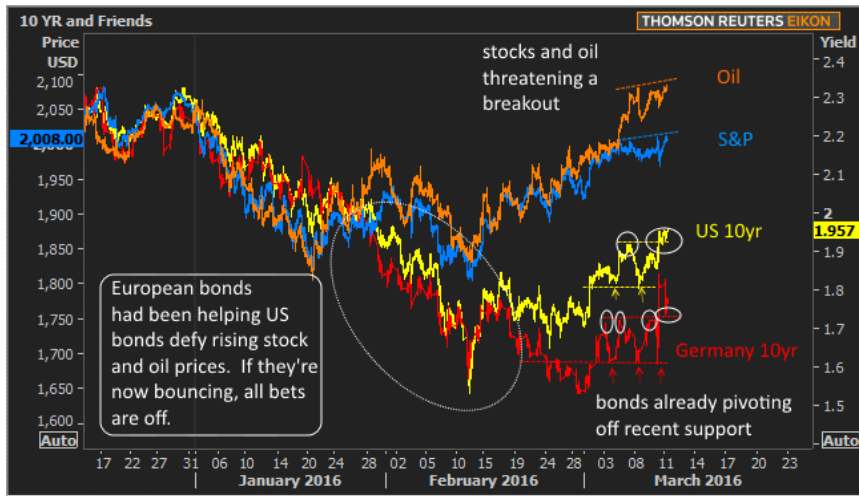
	Price / Yield	Change
MBS UMBS 6.0	100.08	-0.20
MBS GNMA 6.0	101.02	-0.13
10 YR Treasury	4.4978	+0.0417
30 YR Treasury	4.6405	+0.0320

Pricing as of: 5/10 5:04PM EST

**Average Mortgage Rates**

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.16%	+0.01	0.00
15 Yr. Fixed	6.64%	+0.01	0.00
30 Yr. FHA	6.62%	+0.01	0.00
30 Yr. Jumbo	7.40%	+0.01	0.00
5/1 ARM	7.33%	-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: 5/10



Of course, any of the party participants could reignite the good times, but for now, the momentum is clearly pointed toward the door. The longer 10yr yields hold over 1.918 (the upper, dotted yellow line in the chart), the more we know they'll have pivoted **up and out** of that "still trying to party" range. They'd need to get firmly back under 1.84 (the lower dotted yellow line) to signal that the good times would keep rolling.

The **Fed** is showing up next week, either with the cops, or a fresh keg.

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