

THE FEDERAL SAVINGS BANK



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A Message from Ted Rood:

"A Friday, pre-Fed rally? We'll take it!"

UPDATE: Biggest Rally of The Week Despite Decent Data. What's Up With That?

Takeaways:

- external markets (stocks, currencies, oil) all moving to sidelines ahead of Fed week, causing positive spillover in bonds.
- bond market gains crossed technical lines in the sand, forcing traders who'd been short (i.e. betting on higher rates) to cover those short bets (by buying bonds)
- BIG technical significance with long term ceiling in S&P. Fed rate hike seems to reinforce the ceiling, and there's some concern it will turn out to be a long term shift for stocks.

As I may have been saying--perhaps more frequently than needed--next week is the **Fed hike**. Considering the Fed Funds Rate is the biggest factor in the short term US bond market, and that the short term US bond market sets the starting point from which the rest of the bond market radiates, it's no surprise that bonds react to Fed expectations first and foremost.

Now it's the rest of the world's turn.

There's something to be said for "a week" in terms of **underappreciated units of time** in the trading world. While there is plenty of focus on things like days and nanoseconds, as well as "month-end" in mass media, the good old week is actually more important than you might think. A lot of traders who sprinkle technical analysis into their strategy rely on weekly closing levels. Another big contingent of traders relies on the closing of trading positions by the end of the week.

This significance of the weekly time frame transcends mere bond markets and today we're seeing it in stocks, oil, currencies, and probably a hundred other things that aren't on my radar. Long story short: this is the end of the week before the Fed rate hike. There is a **lot of housekeeping** to be done among traders, and that housekeeping happens to benefit bond markets (oil in the \$35 range, rampant volatility in currencies, and equities markets looking to confirm an epic, long-term smack into the proverbial ceiling).

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/17:34PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00

Freddie Mac

30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00

Mortgage Bankers Assoc.

30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

If all of the above has even a modest impact on bond markets, AND if that impact is enough to cross certain technical lines in the sand--as it has been today--then the traders with short positions (those betting on higher rates) are **forced to 'cover'** those bets (i.e. "buy bonds"). This in turn raises the price and forces the next guy in line to cover, thus perpetuating a snowball rally.

And that's what we're seeing this morning. As expected, the data didn't matter. Retail Sales, excluding autos actually beat its forecast (+0.4 vs +0.3), and producer prices were much stronger than expected. Both of those are theoretically bad news for bond markets, yet here we are 6.2bps lower in 10yr yields and a quarter point higher in MBS.



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