

MBS & TREASURY MARKETS

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A message from Marc Erickson:

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The Day Ahead: Different Week, Same Selling

Selling continues to be the path of least resistance for the bond market. Open interest data from Treasury futures suggests Friday's "short-covering" assessment may not be the only story. Reason being: open interest moved HIGHER (it would be much easier to conclude short-covering drove the move if open interest was lower). The counterpoint is that new short positions in the afternoon could have merely offset the AM short-covering. Heading into the current week, bonds did their best to hold flat overnight but have been increasingly pressured by fuel prices and technicals. Oil is up about \$4 from Friday and there was additional technical selling when 10yr yields hit 5%. Bigger decisions will be made after Wednesday's Fed announcement--for better or worse.



Marc Erickson

Mortgage Guide, Excel Financial Group, LLC

www.themortgagemarc.com

P: (720) 295-0704

M: (720) 295-0704

123 N College Avenue
Fort Collins CO 80524
1245157



Ehric Wolfe

REALTOR®, Coldwell Banker Realty

www.coloradowolfehomes.com

P: (970) 691-5299

ehric@coloradowolfehomes.com

3665 John F Kennedy Parkway
Fort Collins CO 80525

