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The Week Ahead: Bonds' Bumpy Start is Not About The Fed

Fed policy is one of the **biggest, most consistent** market movers for bonds. With such a high likelihood of a hike, bond markets surely must be focused on this Wednesday's Fed Announcement, right?

Yes and no. Sure, if you read the average mass media coverage of this week's outlook, it's all about the Fed, but here's what the average thesis (like "bonds are weaker because the Fed's going to hike") **gets wrong**. First of all, if bonds are so worried the Fed's going to hike, then bonds will have already adjusted for it. In fact, they've been doing this for months. At this point, the rate hike itself is roughly 100% baked-in to current trading levels.

Bond markets will be **more interested** in the Fed's updated economic projections and Yellen's press conference. These ancillary Fed events help bonds refine their expectations for the next Fed hike (after this week's), as well as the general path of Fed policy going forward. In other words, it's the future that's most interesting. The presence of a rate hike this week is a relative non-event by comparison.

Also trumping this week's Fed hike is the tactical considerations surrounding the **Treasury auction cycle**. Treasury auctions almost always occur on Tue/Wed/Thu of any given week. But this week, the three auctions are condensed into Mon/Tue, with the first 2 happening on Monday! This is a **very big deal, for the following reasons:**

A) bonds are in the middle of a broad sell-off,
B) bond markets typically weaken somewhat heading into auctions,
C) it's a Monday in December (much like a summertime Monday, there's lower liquidity), and
D) traders are a bit anxious to see how the evolving US fiscal outlook will affect foreign demand for US Treasuries.

It could be the case that much of the weakness seen Friday and overnight has to do with last-minute anxieties surrounding the aforementioned bullet points. We'll know much more about that after tomorrow's auction, and may know a fair amount **as early as 1pm this afternoon** (i.e., if yields are holding or rallying under 2.49% in 10yr yields, it would be reassuring).

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.40	-0.15
MBS GNMA 6.0	100.78	+0.04
10 YR Treasury	4.4223	+0.0454
30 YR Treasury	4.5610	+0.0549

Pricing as of: 5/17 5:59PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	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: 5/17

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