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The Day Ahead: What Can The Fed Do To Bonds Today?

First thing's first: the Fed will **almost certainly** hike today. I suppose we can't ever be truly certain of a particular outcome of a Fed meeting, but this is as certain as markets ever get on the topic. Based on market expectations and the recent Fed communications, there really wouldn't be a way for them to explain foregoing the opportunity to hike here. The possibility doesn't merit further discussion. If you hear anyone suggest the Fed won't hike, the **appropriate responses are as follows:**

1. "Hmmm... well, they have surprised us with how dovish they've been in the past, but I don't think many people believe today will be one of those days."
2. "Don't be daft, man!"
3. "I'm disappointed that you haven't at least offered to share the drugs you're obviously taking. A euphoric alternate reality would be a nice escape from the recent grind. Jerk..."
4. "HA!"

Now, I've also seen some question as to the **possibility of a half point hike** (as opposed to the actual hike, which will be .25). If you hear anyone suggesting the Fed might hike a half point, do not make eye contact with them. **Slowly back out of the room.** Try not to laugh. This person is dangerous and unstable. Cease further personal and professional association immediately. There is absolutely no chance the Fed--THIS particular Fed--is even considering hiking half a point.

Bottom line, the **existence** and **size** of the rate hike is **not** in question. Today's announcement is only interesting for all the non-hike-related features. These include the following:

- Any verbiage in the announcement that addresses caution on inflationary risks or optimism for growth with respect to new fiscal policies (investors will be looking for that word... "fiscal," particularly). It's unlikely that they'll buy into Trump-related optimism in the announcement itself.
- That leaves the dot plot (the updated economic projections) and Yellen's press conference to communicate a shift in the outlook. The dots come out at 2pm and Yellen begins at 2:30pm. Of the 2, the dots have the potential to hit markets hardest and fastest.

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

In general, I think the average bond market participant is looking for the Fed to **push back**--just a little bit--on the Trump optimism. There is the sense that markets have gotten carried away with the recent move and that we'll need to wait and see what sort of effects the policies actually have. If bonds have indeed been trying to carve out a general ceiling based on the 2.50% level in 10yr yields, and if the Fed does indeed push back on Trump optimism, this could be our day. Those "ifs" are too big to count on it, and the Fed can always do more harm than good, but the point is that we're not walking into an automatic losing battle this afternoon.

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With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

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