

Rich E. Blanchard

Managing Director, RICH Home Loans LLC NMLS: 492461 1550 Wewatta St., 2nd Floor Denver, CO 80202 Office: 720.619.9900 Mobile: 303.328.7047 Fax: 214.975.2874

richblanchard@richhomeloans.com

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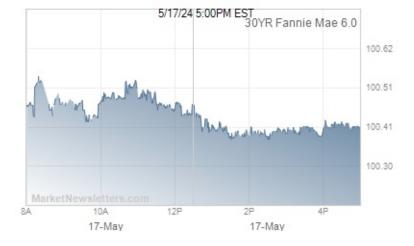
UPDATE: Bond Markets Modestly Weaker Following PPI Data

- PPI 0.0 vs 0.0 forecast, +0.5 previously
- Core PPI +0.3 vs +0.2 forecast, +0.4 previously
- Annual PPI +2.4 vs +2.3 forecast
- Annual Core PPI +2.1 vs 2.0 forecast

Bond markets had been trading flat on the morning heading into the day's only major economic release. After the stronger result, 10yr yields moved up nearly 1bp from 2.211 to 2.197. Fannie 3.5 MBS are down only 1 tick to 102-30. Both have been **holding** there ever since.

2.221 is right in line with the overnight highs achieved during the European session and is, of course, essentially one of our **important pivot points** at the moment (as outlined in the Day Ahead). There's been a somewhat striking level of inactivity in cash Treasury trading over the past 10 minutes as bonds hold in line with the technical level.

The natural risk is that we see a pre-auction concession from here. This refers to a willingness among traders to let bond prices drift lower in order to facilitate an easier bidding process at this afternoon's 30yr bond auction. So far, however, bonds seem willing enough to push back against the weakness.



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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 Banke	rs 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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