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The Day Ahead: All About The Fed's Rate Hike Expectations

If you follow bond market movement for long enough, one thing becomes clear above all others: the Fed is the most reliable explanation for shifts in momentum. That's **not** to say that bond markets are primarily driven by the Fed. After all, one could argue that Fed policy is in a perpetual "chicken vs the egg" scenario with economic data and other motivations. But the point is that the instances of big movement and big bounces in bond markets are most frequently seen in the wake of Fed announcements and Minutes.

Today brings the **most robust sort of Fed announcement**. On 4 of the 8 meetings each year, the Fed also releases its economic projections, which include a dot plot of the Fed's rate hike outlook. This has quickly grown to become one of the key sources of inspiration as described above. After all, what better way for markets to trade interest rates than to get an inside look at the leanings of the folks who set the short end of the yield curve (i.e. the Fed can basically decide what overnight rates will be, but distance between there and, say, 10yr yields can vary due to factors beyond the Fed's control.

Speaking of 10yr yields and longer-term rates like mortgages, while it's true these do tend to move in the same direction as the Fed Funds Rate over time, they don't have to wait for Fed meetings to adjust to changes in the market or to Fed rate hike expectations. As such, with today's Fed rate hike essentially guaranteed, we can safely assume that the reaction in longer term rates is already baked in. Instead, the focus will be on the aforementioned rate hike expectations, released at **the same time as the Announcement (2pm)**. We'll also hear from Fed chair Yellen at 2:30pm. The topic of reinvestments is likely to come up during that press conference and could also move markets.

Between now and then, there are **two significant economic reports** out this morning: Retail Sales and Consumer Price Index, both at 8:30am.

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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 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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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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