

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

View My Website

ALERT: Bonds Open Weaker. Blame Europe

10yr yields are beginning the day **up roughly 4bps** and Fannie 3.5 MBS are down more than an eighth of a point (NOTE: there is some bid/ask illiquidity driving more volatile swings in MBS prices. Read more about that phenomenon HERE).

The weakness is almost entirely due to Europe. Specifically, Mario Draghispeaking at the same conference as yesterday--unleashed an even sterner warning to bond bulls. Here are some highlights, paraphrased:

- All signs now point to strengthening recovery in the EU
- Deflationary forces replaced by reflationary ones
- growth will be above trend and well-distributed among nations
- inflation will still be muted due to temporary factors
- still need a considerable amount of accommodation to get through those temporary factors
- ECB will need to be gradual in adjusting parameters

This is some very serious "tough talk" for Draghi. Seemingly overnight he's gone from talking about most risks being "downside" (i.e. better chance of things getting worse before they get better) to now saying "all signs" point to a strengthening recovery. It's as if he's a robot, programmed to either justify accommodation, be equivocal, or justify tightening. And over the past 2 days, someone flipped the switch from the most to the least bond-friendly setting.

Bonds--especially European bonds--began **selling-off immediately** following Draghi's comment and they continued to lead the way for US bond markets into the early domestic session. We're now seeing traders position defensively for Yellen's Q&A this afternoon. If she, too, were to sing a more hawkish tune, it could prompt 10yr yields to start probing one of the defensive ceilings overhead (2.19-2.21 mostly). If those are broken, June will increasingly look like a floor for rates.

MBS & Treasury Market Data

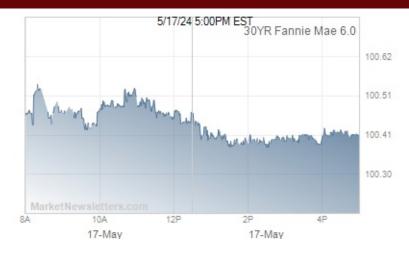
| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 6.0 | 100.40 | -0.15 |
| MBS GNMA 6.0 | 100.78 | +0.04 |
| 10 YR Treasury | 4.4223 | +0.0454 |
| 30 YR Treasury | 4.5610 | +0.0549 |
| | | |

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



Subscribe to my newsletter online at: http://housingnewsletters.com/richhomeloans

Expert Advice | Exceptional Service | Flawless Execution

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.

Rich E. Blanchard

