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A Message from Rich E. Blanchard:

"Fed festivities on Wednesday #fun"

The Week Ahead: Absolutely No Significant **Data Ahead of The Fed**

If it weren't for the Fed Announcement on Wednesday, this would look like a prime vacation week for market participants as there is a distinct lack of relevant economic data. In fact, there's only one top tier report: Friday's Durable Goods.

Making the dearth of data even more striking is the fact that there aren't even any 2nd tier reports on the first 2 days of the week. It's not until Fed day (Wednesday) that we get our first sniff of econ data in the form of February Existing Home Sales, and that's not a report that tends to be much of a market mover. All of the above places an inordinate amount of market movement potential with Wednesday afternoon's Fed festivities.

There are 8 Fed meetings/announcements on the schedule every year. 4 of them are limited strictly to the release of the policy statement. The other 4 include "economic projections" (where Fed members predict several economic components, but most importantly, their own outlooks for rate hikes) and a press conference with the Fed Chair. This week's announcement is one of these special 4 with the bonus events.

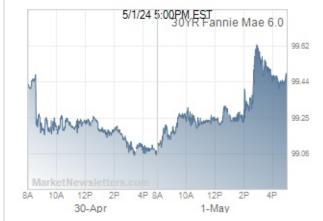
In an environment where Fed Funds Futures (the market's assessment of future rate hike potential) have been surging to their most pessimistic levels every week this year (with the exception of the big stock sell-off in early Feb), an updated read on the Fed's outlook is significant. Think about the amount of ground covered in rates since the last time we got updated Fed forecasts in mid-December. There's a certain amount of additional rate hike expectation that is now priced into current interest rates. Wednesday's Fed forecasts will let markets know how warm their porridge is. If it's "just right," there doesn't need to be a huge reaction. But "too hot" or "too cold" and bonds could respond in a fairly big way.

How do we define "big?" The first lines of defense, for better or worse, are clearly jumping off the medium term rates charts. Particularly, recent highs of 2.91-2.92% in 10yr yields have been a frequent and fairly reliable ceiling. The floor/resistance at **2.80%** has been even more pronounced. These are the first levels we'd be looking for yields to break if the Fed ends up definitively

MBS & Treasury Market Data

| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 6.0 | 99.46 | +0.40 |
| MBS GNMA 6.0 | 100.48 | +0.27 |
| 10 YR Treasury | 4.6289 | -0.0056 |
| 30 YR Treasury | 4.7472 | -0.0042 |

Pricing as of: 5/18:17PM EST



Average Mortgage Rates

| • | 0 0 | | |
|------------------|-----------|--------|--------|
| | Rate | Change | Points |
| Mortgage News | Daily | | |
| 30 Yr. Fixed | 7.41% | -0.10 | 0.00 |
| 15 Yr. Fixed | 6.84% | -0.06 | 0.00 |
| 30 Yr. FHA | 6.88% | -0.11 | 0.00 |
| 30 Yr. Jumbo | 7.60% | -0.07 | 0.00 |
| 5/1 ARM | 7.50% | -0.05 | 0.00 |
| Freddie Mac | | | |
| 30 Yr. Fixed | 7.17% | -0.27 | 0.00 |
| 15 Yr. Fixed | 6.44% | -0.32 | 0.00 |
| Mortgage Banke | rs Assoc. | | |
| 30 Yr. Fixed | 7.24% | +0.11 | 0.66 |
| 15 Yr. Fixed | 6.75% | +0.11 | 0.64 |
| 30 Yr. FHA | 7.01% | +0.11 | 0.94 |
| 30 Yr. Jumbo | 7.45% | +0.05 | 0.56 |
| 5/1 ARM | 6.64% | +0.12 | 0.87 |
| Rates as of: 5/1 | | | |
| | | | |

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helping or hurting bonds (granted, this may change by Wednesday, but we'll discuss new levels if that happens).



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