Mortgage Market Commentary



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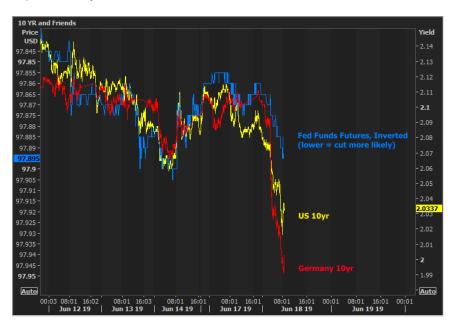
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The Day Ahead: Unexpected Headlines Result in Bond Market "Lead-Off"

In the day just past, bonds did absolutely nothing new or interesting. Yields continued to trade in a narrow, sideways range--one that has persisted for more than 2 weeks. The ostensible catalyst for a breakout was (and still IS, in some ways) tomorrow's Fed announcement (and press conference and economic projections).

In the day ahead, we'll ponder what it means that bonds have managed to break out more than a day before the Fed's festivities begin. In fact, today qualifies as **confirmed "lead-off"** move. These happen frequently enough that we've created a primer on the topic in the MBS Live knowledge base (here it is). Long story short, bonds know the big pitch is coming in the form of tomorrow's Fed events, but for whatever reason, they're breaking out of the sideways range a day early.

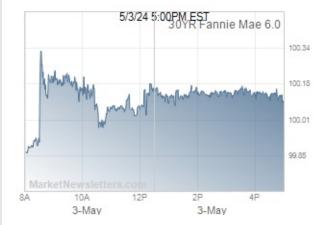
Sometimes there is no easily identifiable reason for a lead-off, but in today's case, it's **clearly** the work of the European Central Bank. **Simply put**, Mario Draghi effectively promised more stimulus and rate cuts this morning. He also said this has already been discussed at the last meeting. The effect on European Bonds was obvious. Treasuries were pulled along for the ride. The chart below shows the EU vs US 10yr yields and throws in Fed rate expectations just so we can see that this move isn't about the Fed.



MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.09	+0.31
MBS GNMA 6.0	101.03	+0.29
10 YR Treasury	4.5138	-0.0657
30 YR Treasury	4.6711	-0.0579

Pricing as of: 5/3 5:04PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News	Daily		
30 Yr. Fixed	7.28%	-0.09	0.00
15 Yr. Fixed	6.75%	-0.07	0.00
30 Yr. FHA	6.70%	-0.12	0.00
30 Yr. Jumbo	7.48%	-0.07	0.00
5/1 ARM	7.35%	-0.07	0.00
Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	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: 5/3			

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And here's the effect on the range:



Rather than think of this as an early victory in the game that was set to be played tomorrow, it's better/safer to treat it like a last minute course correction. This may slightly alters the playing field but it doesn't change the outcome function for bonds. In other words, if the Fed is much more hawkish than markets expect, bonds would still likely weaken. Conversely, if the Fed signals a rate cut in July and the likelihood of additional cuts in 2019, game on.

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