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ALERT: Emergency Rate Cut; QE4 Officially Here, Including \$200bln MBS

- Fed Funds Rate now 0-0.25% (matches record low)
- \$500 bln in new Treasury purchases + 100% reinvestments
- \$200 bln in new MBS purchases + 100% reinvestments
- 1st month of MBS QE + reinvestments to equal \$80bln
- Pace will be adjusted as appropriate

Operational

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.44	+0.24
MBS GNMA 6.0	100.58	+0.19
10 YR Treasury	4.3494	-0.0832
30 YR Treasury	4.5211	-0.0847

Pricing as of: 7/3 12:49PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			

30 Yr. Fixed	7.08%	-0.05	0.00
15 Yr. Fixed	6.45%	-0.02	0.00
30 Yr. FHA	6.55%	-0.05	0.00
30 Yr. Jumbo	7.25%	-0.04	0.00
5/1 ARM	7.07%	-0.03	0.00

Freddie Mac

30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Mortgage Bankers Assoc.

30 Yr. Fixed	7.03%	+0.09	0.62
15 Yr. Fixed	6.56%	+0.09	0.54
30 Yr. FHA	6.90%	+0.11	0.95
30 Yr. Jumbo	7.11%	-0.01	0.50
5/1 ARM	6.38%	+0.11	0.54

Rates as of: 7/3

Details: https://www.newyorkfed.org/markets/opolicy/operating_policy_200315

Announcement: <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm>

Is this big news? Yes

Is it unexpected? No. Well, it wasn't necessarily expected on Sunday, but it was definitely expected by the Fed meeting this Wednesday.

They were also increasingly expected to include MBS in that QE. I wasn't convinced this was necessary and now we'll never know if it was. But considering the current pace of origination, this is a very small token (the Fed is sponsoring about 1.5 months of the current refi boom).

What will it do to rates?

It will help prevent MBS spreads from widening further to Treasury yields. It will keep mortgage rates in a happier zone under 4%. It will pave the way to a return to or below 3% in the coming weeks.

Why is the Fed doing this?

Look around you. Read the news. Talk to people. There's a **massive, guaranteed, global recession** on the horizon. We've been waiting for this one and scratching our heads as to the cause. Coronavirus cleared up the doubt as to the cause and the timing. The "waiting" and the stellar all-time highs in stocks seen less than one month ago both set us up for extra momentum and a bigger fall. All the Fed is doing here is trying to soften the blow before it truly lands.

Unfortunately, this may well turn into another instance of markets expressing the notion that Fed money doesn't cure coronavirus, and with rates at zero and QE announced, investors will view the Fed as being out of bullets. That could lead to the most staggeringly dramatic volatility we've ever seen. Emphasis on "could" over "will." No one knows exactly what's going to happen next.



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