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The Fed Is Buying Fewer Mortgage Bonds This Week (Sort Of...)

Here is this week's MBS buying calendar. And here's how it changed on Monday (target amounts dropped to $30bln per day from $40bln)

It differs from last week's in that there is now only **$40bln** of purchases per day rather than $50bln.

So does that mean MBS prices are doomed? Not even a little bit. In fact, the number is still so high as to defy logic. After all, if we add up all the Fed's accepted MBS bids this week, the grand total is roughly $183,307,000,000 or about **$36.66 bln per day.**

Given that the Fed just drove the price of UMBS 2.5 coupons up to 104-15 by Friday afternoon--a delta of **more than 6 points** from the lows seen at in the previous week--one might expect them to modulate the throttle a bit more. But to the Fed's way of thinking, they're doing their job by controlling volatility and making sure every last seller has a buyer.

The **margin call** side effect on the primary mortgage market has been discussed quite a lot on MBS Live and made my list of factors responsible for "breaking the mortgage market" last Thursday. There's certainly a lot of pain out there right now for lenders faced with massive temporary bills. Many have never had such big tabs come due with their broker dealers.

Should the Fed buy less or stop buying to remedy this problem? **Yes and no**. It's clear the Fed buying far outweighed the amount of available supply, but consider things from their point of view. On the week ending March 13th, the industry was desperate for Fed intervention. I warned against this at the time, but "maintaining liquidity" overruled my idealistic long term goals, apparently.

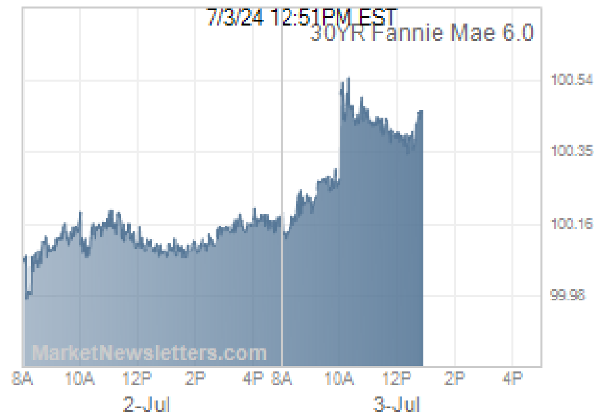
The Fed led off with pitiful daily amounts of MBS purchases relative to supply--not even fractionally enough to arrest the slide. As such, by Thursday, they were forced to get nasty. Mortgage markets wanted a war? The Fed would give them a war, and the Fed would win. See my newsletter on the Fed "getting angry" HERE.

Again, from their standpoint, they were simply winning the war on illiquidity and volatility. The **only way** the Fed is capable of doing both those things is to buy way more than is needed and drive prices up into a high, narrow range. This is what they did in 2012 and it didn't result in nearly as much volatility in

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.46	+0.26
MBS GNMA 6.0	100.57	+0.18
10 YR Treasury	4.3513	-0.0813
30 YR Treasury	4.5235	-0.0823

Pricing as of: 7/3 12:51PM 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

the recently-minted 30yr fixed 2.5 MBS coupons.

They may have overdone it a bit by flexing their muscle last week. But keep a few things in mind. Given a choice between Fed and No Fed, what would the average lender choose back on Friday March 13th? And given the state of affairs the following Thursday when 2.5 coupons had plummeted well into the 98's, was the average lender happy to see the Fed step up their buying?

If we're going to fault the Fed for something, it would be for **overreacting** on Thursday March 19th and then **not** letting off the accelerator through last week. But chopping the throttle to zero at this point would be the **worst thing they could do.** What this market needs is for lenders to not be forced out of business by margin calls while prices remain as stable as reasonably possible. That requires ongoing Fed buying at lower amounts than we saw last week.

Even in the context of "up to" $40bln a day in the coming week, the **Fed has the latitude to tone down its buying** to something that will help massage prices back into the upper-middle of last week's range. We know they've heard the mortgage market's message, but we'll see just how well this week. Looking for a warm bowl of porridge!

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