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## The Day Ahead: Bigger Picture Risks With a Major Caveat

Bond markets--especially Treasuries--had one of their **worst days of the month** yesterday. Or maybe they didn't... It's hard to say for sure when volumes were about half that of an average day and roughly 1/3rd of the average NFP day. Not only that, but we also know there are far fewer active market participants this time of year. Finally, we also know that trading is less motivated by organic, long-term considerations and more by end-of-year housekeeping needs.

In other words, there's always some chance that days like yesterday were/are purely incidental and January's trading will be January's trading either way. Of course, if January's trading is bad for bonds, yesterday will end up looking like an **ominous forewarning**. But in order for it to truly be that sort of coal mine canary, we'd need to see the same sort of weakness today.

No matter what we see today, we have to keep in mind the fact that **rates will be under pressure** to whatever extent the Fed rate hike cycle doesn't result in negative economic data. This is a longer-term phenomenon. To that end, I'd offer a warning: there's an inherent lag time between the change in Fed policy and its ultimate economic effects. The data coming out in the next few months will be largely unaffected by the rate hike, so if it's positive, it stands a very good chance of causing an "oh crap" moment where bond markets freak out about rates needing to move higher (as in "oh crap, the Fed hiked and it didn't kill the economy... maybe rates are way too low!"). While I don't think that would last very long, it could be the same sort of sharp correction we saw in February or May 2015.

There is nothing of note on the econ calendar today except, perhaps, for the 7yr auction at 1pm. The auction will mark the unofficial close for the week as tomorrow is New Years Eve and a half day for markets. There will be some data tomorrow, and potentially even some volatility due to year-end trading, but it can't be assumed to be relevant to the bigger picture.

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## MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/17:34PM EST



## Average Mortgage Rates

	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
<b>Mortgage Bankers Assoc.</b>			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

