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A Message from Matt Graham:

"This is why we'll easily see 3.625% 30yr rates this morning."

UPDATE: Key Takeaways From The Exceptionally Weak NFP

If you were tuned in to market-watching way back in 2013, you might remember the jobs report releases in April and May. April's release of 88k vs 200k forecast was the **worst** in more than a year. This completely put the brakes on any possibility that the Fed would begin legitimately considering tapering its asset purchases (something Bernanke had discussed only a few weeks earlier).

Markets didn't read too much into Bernanke's March press conference and the weak NFP made sure that they wouldn't... yet. Enter April's numbers (released on May 3rd). Everything that had been good for rates in the previous jobs report was reversed by this one. It was one of the **largest reversals in payroll momentum** we'd ever seen, with net positive revisions of 114k jobs on top of a 20k job beat. It completely changed the game with respect to tapering potential. Thus began the taper tantrum.

Why bring all this up?

Because it would take another report like that May 3, 2013 release to undo the economic damage done by today's. It's a real doozy. The **normal silver linings** that econo-bulls normally rely upon to make their counterarguments on TV are all **completely absent**. Shall we count the ways?

- There are **no positive revisions**. In fact, there are hefty negative revisions, -37k last month and 22k the month before.
- **Private Payrolls** (which are arguably just as relevant as nonfarm payrolls) paint an even worse picture, falling to 118k vs a 195k consensus. Negative revisions were even bigger, with the previous month falling to 100k vs 140k
- The **participation rate** decreased to 62.4 from 62.6. Normally, a falling participation rate is used by econo-bears to explain why the jobless rate is falling faster than the headline suggests. Yet the jobless rate didn't even fall this time! It held steady at 5.1 vs 5.1. This suggests that 'all things being equal,' unemployment increased faster than job growth.
- When payrolls fall and unemployment rises, econo-bulls frequently

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.39	+0.19
MBS GNMA 6.0	100.53	+0.14
10 YR Treasury	4.3602	-0.0724
30 YR Treasury	4.5297	-0.0761

Pricing as of: 7/3 5:59PM 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	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	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

point to things like increased **hours** or **wages** to help offset the headline damage. This time around, Average hourly earnings came in at +0.0 vs +0.2 forecast. There goes that argument.
- But how about hours worked? Sure, maybe people are making less money and sure, maybe there are fewer people working than would like to be, but maybe those who ARE working are getting more hours. Nope! Avg **workweek fell** to 34.5 vs 34.6 previously/forecast. The weekly hours index for private payrolls fell 0.2 pct after rising 0.1 pct last time.

Bottom line, it was a **universally downbeat** report. In fact, considering all of the above, I will say I'm somewhat surprised that we've only gained 10bps in 10yr yields and that Fannie 3.0s are only 19 ticks higher at 102-03. This report is a game-changer. The ONLY thing that could rob it of that potency would be another 'once-in-a-blue-moon' report like the big reversal seen in May 2013. And we just had the last blue moon in a long time a few days ago (no joke).

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