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The Day Ahead: Bank of Japan Did What Now? Bring on The Fed!

Bond markets had two central bank announcements to endure today, and the first one is already out of the way, sort of... The Bank of Japan unleashed a policy announcement so **complicated and nuanced** that it seems markets have put the task of trading it on the back burner until after this afternoon's Fed announcement. So what's the big deal with the BOJ news?

In a few nutshells, here's what the BOJ did:

- Set a target for 10yr yields (unprecedented).
- That target is "around zero percent"
- Kept short term rates unchanged
- abandoned its target for money creation, but at the same time said it will continue adding 80 trillion Yen every year
- In a complete contradiction to the previous statement, it said it would keep printing money until CPI exceeds 2%
- abandoned commitment to buy bonds only of certain maturities (i.e. they can buy whatever they want now)

So in general, the BOJ is now **targeting the shape of the yield curve** (relationship between shorter and longer term yields) rather than an outright rate level. But it's also targeting inflation, aiming to get CPI above 2% as soon as possible. It's, as yet, unclear whether the zero percent target for Japanese 10yr yields would involve selling bonds (or simply decrease buying) when 10yr yields are in negative territory, but that seems to be the takeaway, and one that has unfriendly implications for domestic bond markets any time there's a "-" sign in front of the Japanese 10yr yield.

All things considered, the announcement's potency as a market mover has more to do with **how it evolves in practice** over the coming months. In other words, it's not as if the BOJ really gave us something substantive to trade today--no move in rates, no change in the planned amount of bond buying--merely a "heads-up" that they would continue to do what they've been doing, but now with an eye on the shape of the yield curve.

Domestic bond **markets seem confused** on how to trade it. Yields rose initially, but that was primarily due to the fact that some of the market was expecting Japan to cut rates. Treasuries recovered steadily after the initial headline pop and made it back to the domestic session in unchanged territory.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.12	-0.05
MBS GNMA 6.0	100.23	-0.10
10 YR Treasury	4.4385	+0.0405
30 YR Treasury	4.5976	+0.0336

Pricing as of: 7/1 8:49AM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	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	7.02%	-0.05	0.65
15 Yr. Fixed	6.60%	-0.15	0.55
30 Yr. FHA	6.87%	0.00	0.92
30 Yr. Jumbo	7.18%	-0.03	0.54
5/1 ARM	6.45%	+0.08	0.81

Rates as of: 6/28

From here, market attention turns solely toward the **Fed at 2pm**. We have the announcement itself and the economic projections at 2, followed by Yellen's press conference at 2:30pm.

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Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the ONLY objection we ever hear is "your rates sound too good to be true". Well they're not, and here is why...

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It's simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It's just a lie that the big box mortgage companies have been telling you for years. Don't believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

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