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UPDATE: Bonds Swing Both Ways as Draghi (Mostly) Delivers; Letter Grades on Policy Announcements

- Volatility before, during, and after ECB Announcement
- ECB Mostly Delivered, Draghi Press Conference raises questions
- 10yr yields briefly hit 1.916, now back down to 1.88 (unch'd)
- Fannie 3.0s briefly hit 101-25, now back up to 101-28 (-0-01)

The **quick and dirty takeaway** from today's ECB news is that Draghi largely delivered on previous promises to increase accommodation. If you thought that central bank easing meant good things for bonds, think again. What's happening here is the same thing we discussed in late 2014 as I warned you about bond markets potentially weakening after the ECB finally pulled off the long-debated QE.

At issue is the fact that the ultimate goal of QE and other central bank easing measures is to **stoke the fires of inflation** and economic growth. While it's true that those measures often benefit bond markets initially (due to asset purchases and the depression of policy rates), if they're successful, they're bad for bond markets because they engender inflation and growth.

Long story short, today's announcement was **potent enough to avoid disappointing risk markets**, but not so potent as to pound any nails too deeply into the bond market's coffin. If the ECB didn't do enough, we'd expect to see stocks losing ground and bonds making gains due to the implications of an uncontrolled slide into global economic turmoil. For now, bond markets are near unchanged levels, but are generally defending against weakness as opposed to pushing into stronger territory.

Here are letter grades on the efficacy of the various ECB announcements

- cut its main refinancing rate to 0.00 from 0.05
  - **(D-, this is essentially meaningless--a token cut)**
- cut its marginal lending facility rate to 0.25 from 0.30
  - **(D-, same as above, a minimal cut just to be able to say they cut all their rates)**
- cut its deposit rate to -0.4 from -0.3
  - **(B, a more meaningful cut here, and one that raises the ceiling of how much the ECB can buy of any particular sovereign debt issue. Reason being: they can only buy sovereign debt until the point that its yield reaches the deposit rate)**

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

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Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00
Freddie Mac			
30YR Fixed	7.18%	+0.97	0.00
15YR Fixed	6.57%	+1.10	0.00
Mortgage Bankers Assoc.			
30YR Fixed	7.30%	+0.18	0.75
15YR Fixed	6.76%	+0.33	0.98
30YR FHA	7.02%	+0.24	1.07
30YR Jumbo	7.20%	+0.05	0.48
7/6 SOFR	6.29%	+0.19	1.00

Rates as of: 11/10

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- expanded monthly purchases to €80bln from €60bln
    - **(A-, An additional €20bln on top of the existing 60 bln is a pretty big deal)**
- expanded the list of assets to include non-bank investment-grade debt
    - **(A+, this is a big deal. Many thought they'd never be able to pull this off. It would be akin to the Fed buying corporate bonds).**
- announce 4 new TLTRO's, the long-term refinancing operations announced as an enhancement in 2014 (read more about this confusing crap, if you're into that sort of thing. It's just another way to describe the central bank dropping money from helicopters)
    - **(B, very much an expected part of the ECB policy playbook. This is like a multivitamin that probably helps as opposed to other measures which are like experimental surgeries).**

As Draghi continues speaking, markets continue trying to make heads or tails of the overall takeaway. European stocks like the news most. European bonds are mildly stronger. US stocks have now traded out all of the post-ECB gains. US bond markets are taking some solace in the US stock market weakness. The day is young though, and Draghi's press conference is ongoing.



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