Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
Fax: 214.975.2874
richblanchard@richhomeloans.com
View My Website

The Day Ahead: The Fed Effect at Home and Abroad

- Bonds were weaker into the March 16th FOMC meeting, but that marked a turning point
- It also marked a turning point for European bond markets, which have, in turn, helped US bond markets extend the rally
- Now today, we get more detailed information on how the Fed came to the March 16th conclusion
- This also serves to clear up any confusion about where Yellen stands compared to the rest of the Fed

In yesterday's recap, I mentioned that the global bond market rally was **reinvigorated** 3 weeks ago after the FOMC (Fed) Announcement. Now today, we get the Minutes from that Fed meeting. Connecting the dots, if that Fed Announcement was important enough to make global financial markets shift noticeably, getting a more detailed account of how the Fed arrived at its conclusions should also have the potential to move markets.

So what exactly are we talking about here?

Before the March 16th meeting, the last we hear from the Fed (in terms of economic projections) was at the December meeting. At that time, the average Fed member saw 4 rate hikes in 2016. The March 16th meeting saw that view slashed to only 2 hikes. This may have been in line with what markets were thinking, but many market participants **did not expect** the Fed to have come to the same conclusion so quickly.

In other words, the Fed has acquiesced to the global economic malaise and risks more readily than expected. This stokes the fires of multiple markets because so much of the day-to-day operations of financial markets are based on the Fed Funds Rate. At its most basic level, easier Fed policy means **cheaper money for everyone**. It also means a weaker dollar, which is good for stocks (cheaper foreign operations). A weaker dollar also forces the hand of foreign central banks in terms of Currency Wars (i.e. Europe isn't under as much pressure to weaken its own currency if Fed policy is strengthening the dollar).

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.62	+0.01
MBS GNMA 6.0	100.75	+0.01
10 YR Treasury	4.2837	+0.0019
30 YR Treasury	4.4796	-0.0061

Pricing as of: 7/8 9:55AM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.03%	-0.05	0.00
15 Yr. Fixed	6.44%	-0.01	0.00
30 Yr. FHA	6.50%	-0.05	0.00
30 Yr. Jumbo	7.24%	-0.01	0.00
5/1 ARM	7.05%	-0.02	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: 7/5

But if the Fed tone suddenly shifts in such a way that suggests more dollar weakness (which the March 16th meeting and the subsequent Yellen speech definitely did), Europe is suddenly under renewed pressure to keep up with the Joneses. In fact, there are **only 2 paths** for Europe in that scenario: buy more bonds or face a slumping economy. That's a win/win for German Bunds, and unsurprisingly, they've moved dangerously close to all-time low yields after the last two blasts from the Fed (March 16th announcement and Yellen's speech last week).

Put it all in a chart and it looks something like this (the subtleties in bonds, stocks, and oil are harder to see in context, but if you focus, for instance, specifically on the 10yr, you can see how the FOMC announcement **marked a clear turning point**, and how yields then consolidated sideways until Yellen's speech sent them lower. This has mostly been a bond market show, with stocks and oil along for the ride):

Today's Minutes hit at 2pm. Some investors are wondering how much of a divide there is within the Fed. Yellen was very dovish last week, but then Rosengren and others have been surprisingly hawkish. Indeed, it seems that a large enough portion of the committee remains in favor of "3-ish" hikes this year that we can't actually know how things are going to unfold. If the Minutes cast any new light on how well-represented this "3-ish hike" crowd is, it could have a surprisingly big impact on bond market trading, and potentially even serve to **cap the recent rally.** Then again, it could be a dud. We'll find out at 2pm!

Subscribe to my newsletter online at: http://housingnewsletters.com/richhomeloans

Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

Rich E. Blanchard