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The Day Ahead: Biggest Day of Data This Week

We've recently seen a **refreshing reconnection** between bond markets and economic data. I say "refreshing" because the classic connection between stronger data and higher rates or weaker data and lower rates, has been hit and miss in the era of unprecedented central bank stimulus.

At issue was the fact that central banks embarked pledged to keep rates low and to buy bonds for a certain amount of time. After that pledged time ended in the US, the Fed switched to a month-to-month lease, so to speak--finally giving its notice in mid 2013.

It would have been easy and logical for domestic markets to reconnect with economic data at that time, not necessarily because of what it might say about the economy, but rather because of how it might impact rate hike potential (the logical next step in the Fed's policy tightening), and eventually, the cessation of "reinvestments" (remember, they're still buying MBS with all of the proceeds from their current MBS portfolio, and **wouldn't you know** that folks aren't paying those loans off too quickly considering the low rates and underwriting environment).

Instead, the world turned its attention to--well... the world. Global financial issues and **global central bank stimulus** efforts took center stage. European and Japanese bond buying efforts caused yields to plunge. Foreign bond market gains spilled over into safe-haven demand for US Treasuries. MBS benefited to a slightly lesser extent, and the paradox of stable-to-stronger data but with increasingly lower interest rates continued.

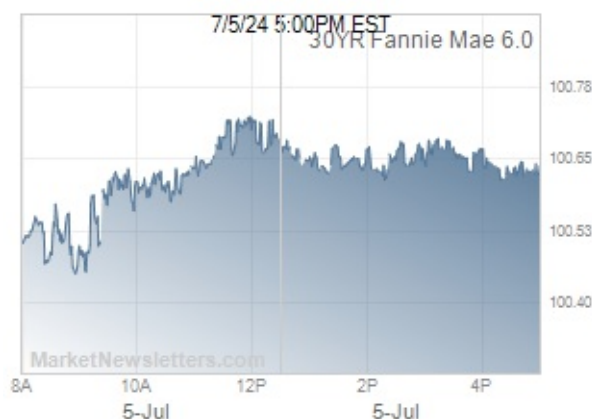
With the most recent long-term low **POTENTIALLY** behind us (at least in the short term), and with the Fed looking somewhat serious about hiking before the end of the year, it seems that "data matters" yet again. We've seen this on several recent occasions, especially with the bigger reports like NFP, Retail Sales, ISM, and inflation data.

Speaking of inflation data, we get one of the **biggest reports of the month** this morning with the Consumer Price Index. If it falls far from consensus, it will certainly impact the Fed rate hike outlook, which in turn will affect the trading levels of longer term debt like 10yr Treasuries and MBS. Housing Starts comes out at the same time, and any continued traction in construction numbers would only add to the rate hike outlook (though less so than a strong CPI). Weak CPI, on the other hand, would go a long way toward calling a 2016 rate hike into question.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.61	+0.22
MBS GNMA 6.0	100.74	+0.21
10 YR Treasury	4.2969	+0.0151
30 YR Treasury	4.4975	+0.0118

Pricing as of: 7/8 2:00AM 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

Bottom line, this is one of our few chances between now and Jackson Hole to see a legitimate challenge to the range.



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