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A Message from Rich E. Blanchard:

"Rates inching up..."

MBS Recap: Bonds Sell as Fed Speakers Sow Scary Seeds

There's something that's just too fun about entertaining **conspiracy theories**--especially when it comes to the Fed's rhetorical platform. Take for instance tomorrow's Minutes (the more detailed account of the meeting that took place in late July). Bonds had been approaching the Minutes from a fairly neutral stance, and were certainly set to adjust to a more bullish (read: lower rates) stance after this morning's tepid economic data.

In other words, we were in the middle of the recent trading range yesterday and we were near the lower end of the recent trading range immediately following this morning's tame CPI numbers. But mere minutes later and we had given up most of the gains. A few hours later and we were **well into the weakest territory** in more than a week. Why?

Today's weakness was **all about the Fed**. Two Fed speakers hit the wires today--Dudley and Lockart--both highly regarded centrists (meaning that markets tend to pay more attention to these 2 guys because they aren't saying stupid, fringy crap most of the time, like a few other Fed members). But today, they might have been mistaken for "the fringe." In not so many words, they both said that "the economy is doing better than you think, yields are too low, we might hike soon, and we might hike twice. Everything's great, just ask me!"

Bonds bought into the conspiracy theory that these two canaries were singing a different-than-normal tune specifically because they think tomorrow's Fed Minutes are going to have the same effect (of pushing rates higher). Why would that matter? Simply because the Fed has shown us, time and again in recent years, that they do not like market volatility, and will frequently attempt to delivery policy communications in such a way that minimizes volatility. Bottom line, markets saw the 2 Fed speakers as softening the blow for tomorrow's minutes. Maybe it's nothing, but it was good enough for a **full reversal** today.

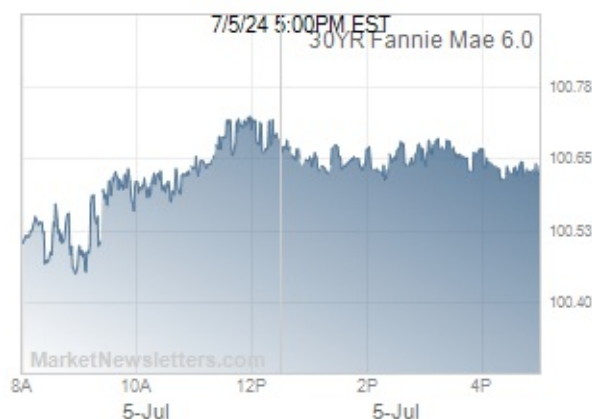
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MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.61	+0.22
MBS GNMA 6.0	100.74	+0.21
10 YR Treasury	4.2979	+0.0161
30 YR Treasury	4.4989	+0.0132

Pricing as of: 7/8 1:53AM 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

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