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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 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

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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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