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The Day Ahead: Markets Look to Draghi to Clarify ECB Tapering Announcement

The European Central Bank (ECB) **changed things up** today, to some extent. Unlike the Fed, which always unveils its big policy changes in the "announcement" itself, the ECB historically tends to address interest rate changes in the announcement and save QE-related adjustments for the press conference. This practice was so well established that I even sent out a previous "Day Ahead" to MBS Live subscribers talking about how we'd be waiting until the 8:30am press conference to find out the important stuff.

Turns out the joke's on me (and the rest of the world, for that matter) as the ECB flipped the script and made the **tapering announcement** in the 7:45am release.

Markets have **taken it quite well** so far, which isn't too surprising considering the extent to which some sort of tapering was heavily telegraphed and generally widely expected. For what it's worth, the tapering plan is to reduce asset purchases from 80 to 60 billion Euros after the current program expires in March 2017, and then to quit cold turkey after Dec 2017.

The ECB threw in a **major caveat** though, saying they could increase the pace during that time and they could decide to keep buying assets after Dec 2017 if needed. They even put part of the onus for such a decision on "financial conditions." In other words, "if markets have a big enough tantrum..."

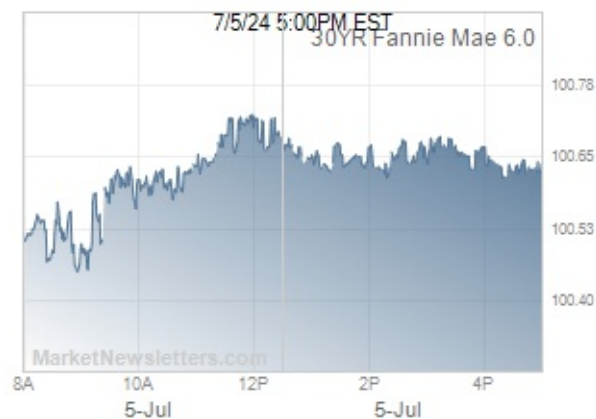
The 8:30am Draghi press conference isn't without its potentially important bombshells, however. Whereas most market stakeholders expected some sort of tapering announcement, there isn't a consensus on **how** the ECB will adjust its policies in order to continue buying bonds if needed. Why would they need adjustment? Simply put, because the ECB is running out of eligible bonds to buy. They have to change their rules (or their interpretation of the rules) in order to **even reserve the right** to continue buying after the Dec expiration, or to re-up the €80 bln pace between March and December. Draghi will discuss that strategy at the upcoming press conference.

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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	4.2818	-0.0784
30 YR Treasury	4.4857	-0.0440

Pricing as of: 7/5 5:59PM 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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