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The Week Ahead: Yellen at Congress, Fed Speakers, and Intermittent Gluts of Data

The week ahead sees data and relevant events come out in concentrated gluts, almost exclusively in the middle of the week. Everyone's favorite headline is **Yellen's semi-annual congressional testimony**. She'll address the Senate at 10am on Tuesday and the House at 10am on Wednesday.

These testimonies traditionally serve as a sort of mid-term Fed announcement. They give the chairperson a chance to double down recent policy shifts or to push back on speculation driven by other Fed speakers.

Unless every congressperson present at both testimonies is completely tuned out, the question of the **Fed's reinvestment plans** will likely come up (because several Fed speakers have been talking about it). This is by no means a new topic for the Fed, but it hasn't been a talking point for any Fed speakers until the past few months.

An end to reinvestments is a **big deal** for the mortgage market because the Fed is still buying almost all new TBA MBS production with interest payments that come in on its existing portfolio. It's also a big deal because Bernanke and others have previously indicated that the Fed would like to get back to a "primarily Treasury" security portfolio. Simply put, they want to hold Treasuries, not MBS. That means one of the forms of tightening in their arsenal (down the road) would be to sell MBS outright.

At that point, we'd get down to brass tacks on how comfortable investors are with the mortgage market in the absence of Fed support. That's a **bit scary** because a Fed-free MBS market hasn't worked out at all since the meltdown.

Even in 2011-2012, when rates were low and demand for safe-haven investments was strong, MBS repeatedly showed an **unwillingness** to keep pace with the rest of the bond market. The gap between MBS yields and Treasury yields kept trying to rise back toward crisis levels. It wasn't until the Fed hinted at, and ultimately executed QE3 that markets got the picture.

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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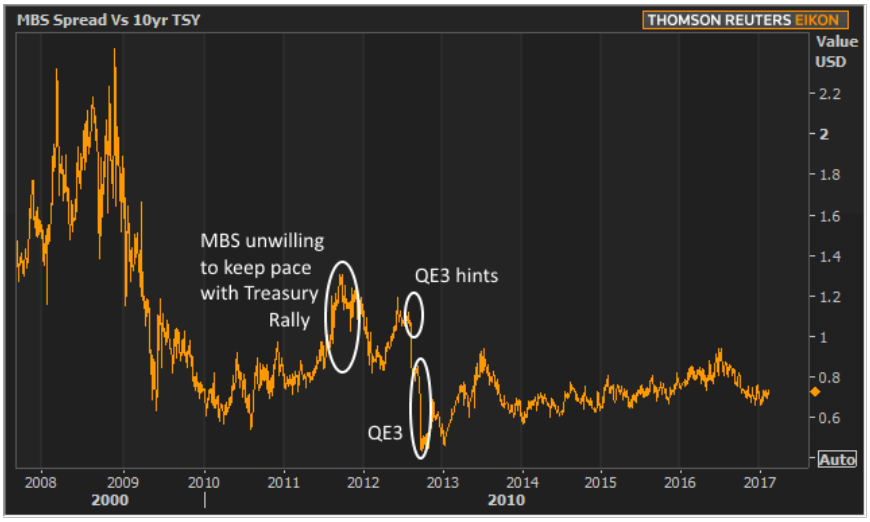

In addition to Yellen, multiple Fed speakers and a slew of economic data dot the calendar--mostly on Tuesday and Wednesday. That makes those 2 days **prime time** for potential volatility. Things calm down slightly on Thursday. Friday is empty in terms of relevant econ data.

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Rich E. Blanchard 

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