

Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
richblanchard@richhomeloans.com
View My Website

UPDATE: ECB Inflation Expectations and Dovish Draghi Help Bonds Recover

The European Central Bank (ECB) policy announcement was largely as-expected earlier this morning. As always, the ECB saves meatier details for the 8:30am press conference with Mario Draghi. The **key detail** today was the expected decrease in the ECB's inflation outlook. It ended up being bigger than most analysts expected with 2017 falling to 1.5 from 1.7 and 2018 falling to 1.3 from 1.6.

On top of this, Draghi had several characteristically dovish comments. Most **importantly**, he noted the following:

- Tapering hasn't been discussed yet
- Normalizing policy hasn't been discussed
- ECB is prepared to lower interest rates if things worsen
- The recovery needs to be accompanied by monetary policy
- The ECB will be in the market for a long time

All of these things are consistent with a central bank that remains in "accommodation mode." This is essentially how the Fed was operating up until early 2013 when Bernanke began talking about tapering (followed shortly by the onset of the taper tantrum in May 2015).

Before that, the question for the Fed had been something like "is this enough accommodation or should we be adding more?" That's where the ECB is now. Markets are **waiting for the moment** when the question shifts to something like "is this enough accommodation and is it time to consider doing less?"

Bottom line, there's massively important pivot in central bank policy that marks the shift from "super accommodative and considering more accommodation" to "super accommodative and considering removing some accommodation." Today's ECB events confirm they're not there yet, and that was critically important for US bond markets to remain anywhere close to recent lows yields.

European bond yields have led a moderate recovery in Treasuries. German Bunds moved nearly 4bps lower since the ECB press conference began. US 10yr yields are only about 2bps lower over the same time, but that 2bps gets them **back near 'unchanged'** levels. Fannie 3.5 MBS are now back up to 103-11 after being as low as 103-08 at the open (down only 1/32nd on the day).

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

Pricing as of: 11/10 5:59PM EST

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
Freddie Mac			
30YR Fixed	7.18%	+0.97	0.00
15YR Fixed	6.57%	+1.10	0.00
Mortgage Bankers Assoc.			
30YR Fixed	7.30%	+0.18	0.75
15YR Fixed	6.76%	+0.33	0.98
30YR FHA	7.02%	+0.24	1.07
30YR Jumbo	7.20%	+0.05	0.48
7/6 SOFR	6.29%	+0.19	1.00

Rates as of: 11/10

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