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## MBS Recap: Bonds Cheer Weak Inflation Data and Fed Forecasts

Heading into the day, we knew we were looking at **2 key market movers** in the form of the CPI data and the afternoon's Fed festivities (which include an announcement, economic projections, and a Yellen press conference).

The morning's inflation data got the party started with Core annual CPI coming in at 1.7 again. This was notable it had just ticked up to 1.8 for the first time in 6 months when it was last reported a month ago. The move up to 1.8 looked like the **start of a bounce** back toward 2%. Today's regression reminds markets of inflation's intractability.

Bonds looked ready for the inflation data to tell a **different story** as rates were pushing against their recent ceiling. The weaker data led to an immediate surge back into the safety of the prevailing range. From there, we waited for the Fed.

As expected, the announcement itself was **unimportant**. The rate hike has long since been baked into bond markets and it was the forecasts that got the attention at 2pm. While the average Fed forecast was very slightly higher (for the Fed Funds Rate), the median Fed member didn't change for the 2018 or 2019 time frames. There was noticeably less "migration" (movement of dots toward higher rates) on the Fed's dot plot compared to September.

The dots were good for **another rally in bonds**. It wasn't as big as the CPI-driven rally, but it had friends--namely, Janet Yellen. Yellen took her farewell opportunity to "let loose" (as much as she can, anyway) on a few topics that she might have phrased differently earlier in her tenure. Specifically, she noted that stock valuations were "high" even though she didn't say that was a problem. She also pointed out that her colleagues had considered the probable impact of the tax bill in drafting their forecasts. That's a bigger deal than it might seem because it means the fairly tepid Fed rate hike forecasts were potentially more aggressive than they otherwise would be in the absence of the tax bill.

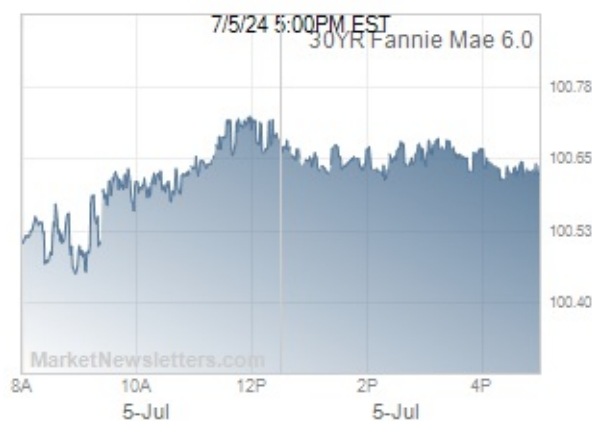
10yr yields ended the day **down more than 5bps** and Fannie 3.5 MBS rose nearly 3/8ths of a point. Most of the gains came after the Fed, but at least half of the movement was attributable to CPI (the initial movement merely helped us get back into positive territory after morning weakness).

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## MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.61	<b>+0.22</b>
MBS GNMA 6.0	100.74	<b>+0.21</b>
10 YR Treasury	4.2818	<b>-0.0784</b>
30 YR Treasury	4.4857	<b>-0.0440</b>

Pricing as of: 7/5 5:59PM EST



## Average Mortgage Rates

	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.03%	<b>-0.05</b>	0.00
15 Yr. Fixed	6.44%	<b>-0.01</b>	0.00
30 Yr. FHA	6.50%	<b>-0.05</b>	0.00
30 Yr. Jumbo	7.24%	<b>-0.01</b>	0.00
5/1 ARM	7.05%	<b>-0.02</b>	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.95%	<b>+0.09</b>	0.00
15 Yr. Fixed	6.25%	<b>+0.09</b>	0.00
<b>Mortgage Bankers Assoc.</b>			
30 Yr. Fixed	7.03%	<b>+0.09</b>	0.62
15 Yr. Fixed	6.56%	<b>+0.09</b>	0.54
30 Yr. FHA	6.90%	<b>+0.11</b>	0.95
30 Yr. Jumbo	7.11%	<b>-0.01</b>	0.50
5/1 ARM	6.38%	<b>+0.11</b>	0.54

Rates as of: 7/5

## Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

**Rich E. Blanchard**

