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Mortgage Rates Drop After Fed "Raises Rates"

Mortgage rates **fell today** even though the Fed "raised rates." What's up with that?

There are all kinds of rates. Some are fixed. Some are adjustable. Some apply to longer-term debt (like mortgages) while others govern very short time frames (like overnight!). Short and long term rates **can** affect one another, but they don't **always** move in the same direction or by the same amount.

The rate the Fed adjusts (aptly named, the Fed Funds Rate), governs only the shortest-time frames (generally overnight loans among big banks). That means mortgage rates don't have to follow the Fed Funds Rate, even though Fed policy has a profound effect on overall interest rate volatility.

The reason that mortgage rates fell after the Fed rate hike is even **easier** to understand. It has to do with how traders account for probabilities. After all, since we're dealing with large amounts of money, we might as well trade like the Fed already hiked rates if we're **pretty sure** they're going to!

Simply put, **EVERYONE** responsible for trading the bonds that govern interest rates (and I do mean everyone in that group, even if non-traders on the TV might have suggested otherwise) was **well aware** that the Fed was almost certain to hike rates this week. The Fed was by no means shy about telegraphing its intention.

That means rates had **long since adjusted** to the probability--so much so that the hike itself was a non-event. This isn't a new phenomenon. In fact, rates often fall after Fed rate hikes. It just depends what else is going on at the time and what else the Fed has to say. The point is that rates can do what they want and the Fed rate hike had already had whatever impact it was going to have.

Other parts of this week's Fed communications were **still important**, but they actually helped rates move LOWER. Chief among these were the Fed's **economic projections**.

The most important component of the projections is a list (a "dot plot" actually) of where every Fed member thinks the Fed rate will be in the coming years. This is essentially the Fed's **rate hike outlook**, and bond markets usually react to it.

National 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

MBS and 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

In the current case, the rate hike outlook **moved lower** for the first time since the Fed began raising rates 3 years ago. As discussed above, traders already traded rates to their **"best guess" levels**. Since the new forecasts make the best-guess seem a bit high, traders could afford to trade rates slightly lower this afternoon.

The other way to look at all this is to say that the stock market is in free-fall and as dollars flee, they're finding safe haven in the bond market, among other places. As demand for bonds rises, rates fall.

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