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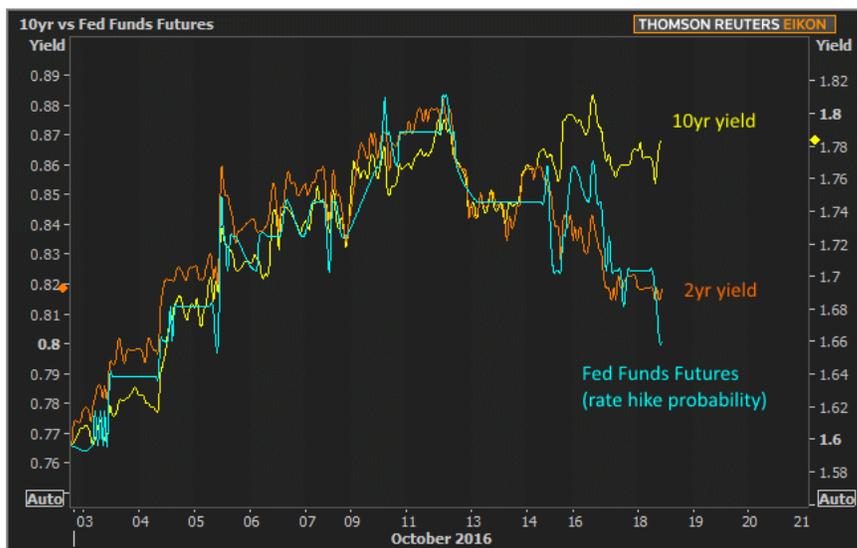
The Day Ahead: Longer-Term Rates Operating on Different Set of Fears

As we approach Thursday's European Central Bank (ECB) announcement and press conference, we are seeing a clearer display of **underlying market motivations**. These motivations can be best understood if we consider bond markets on a spectrum of longer-term and shorter-term debt.

Things like 10yr Treasuries and Fannie 3.0 MBS represent the **sweet spot of "long-term."** Rates that range from "overnight" to 2yr Treasuries represent the sweet spot of "short-term."

When Fed rate hike expectations are driving the entire bond market, long-term and short-term debt would be moving in relative proportion. When long and short-term debt have different concerns, we see them diverge.

They're diverging:

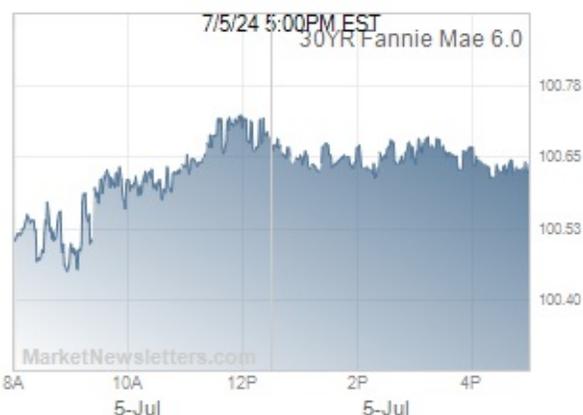


This **makes perfect sense** when we consider the big market movers in the immediate vicinity. The drop off seen last week followed the Fed Minutes, which markets took as a bit less threatening than originally feared. Short and long term rates fell **together**. This week's **divergence** is 100% due to defensiveness, anxiety, and caution surrounding Thursday's ECB announcement.

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	4.2808	-0.0010
30 YR Treasury	4.4721	-0.0136

Pricing as of: 7/7 7:37PM 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

If the ECB is considering **tapering**, it's the longer-term debt that would take the biggest hit. Naturally then, longer term debt is less willing to improve in the days leading up to the ECB announcement, even if shorter term debt and Fed rate hike expectations are trying to help. Bottom line, we're still **waiting for Thursday**, and it will be **difficult**--if not impossible--for longer term debt to get back to last week's better levels before we see what the ECB has to say.

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