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## The Day Ahead: Apex of Bond Supply and Fed Minutes

Today's main event from a "street cred" standpoint will be the 2pm release of the **Minutes from the last Fed meeting**. This is a detailed account of the discussion that produced the Fed Announcement at the beginning of May (which contained no significant changes).

In some ways, the Minutes from the meetings with no significant changes are **potentially** much more interesting than the official policy statement. This is especially true when the Fed is actively in the process of adjusting policy. The meetings without policy changes then become the hotbeds of discussion leading up to the material changes at the subsequent meetings. In contrast, the meetings with material changes tend to have less discussion about future changes and more justification for the changes announced at the meeting itself.

The topic of **most interest to traders** (no pun intended) is the Fed's plan to decrease its reinvestments into MBS and Treasuries. Currently, all of the principal paid down via monthly payments is subsequently reinvested back into the respective marketplace. For instance, if the Fed receives \$100 bln a week in payments on the mortgages it owns, and \$20 bln of that is principal, the Fed turns around and buys \$20bln in new MBS.

As of the last meeting, the Fed began **officially discussing the reduction** of these reinvestments. Since then, nearly every Fed speaker has commented on it. Some want it to happen immediately (and in lieu of further rate hikes, but this doesn't seem to be the mainstream view). To whatever extent the discussion is advanced in the today's Minutes, we'll get important insight as to the market's priorities.

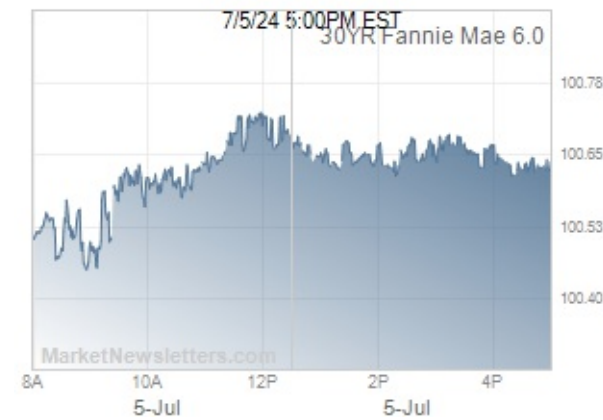
Here's what I mean by that. There are **2 key components** to Fed policy at the moment: rate hikes and reinvestments. The rate hike trajectory is an obvious component in bond market sentiment. Reinvestments will undoubtedly have an impact, but it's much harder to gauge the size of that impact considering that we're dealing with estimated dollars of demand in the bond market. The net effect of those dollars on trading levels is a much harder thing to measure compared to something like the Fed Funds Rate.

Could today's Minutes be a **dud**? Sure, that's always a possibility, but the Fed gets first right of refusal when it comes to market movement potential on any day with an Announcement or Minutes release.

## 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
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Mortgage News Daily			
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

Freddie Mac			
30 Yr. Fixed	6.95%	<b>+0.09</b>	0.00
15 Yr. Fixed	6.25%	<b>+0.09</b>	0.00

Mortgage Bankers Assoc.			
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

**Beyond the Fed**, we have the apex of this week's Treasury auction cycle with 5yr notes at 1pm. Conventional wisdom holds that investors are less eager to bid aggressively at a auction on a Fed day (whether it's Minutes or an actual Announcement), but it's not a hard and fast rule. The day's only major economic data is Existing Home Sales at 10am, expected to fall 1.1 percent to an annual pace of 5.65 mln units.

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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**

