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

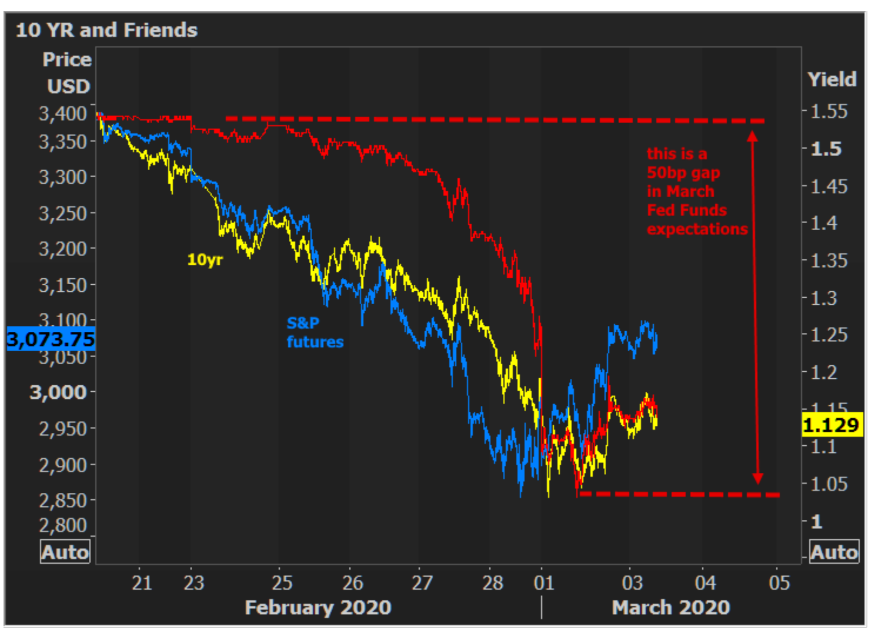
Office: 720.619.9900
Mobile: 303.328.7047
Fax: 214.975.2874
richblanchard@richhomeloans.com
View My Website

The Day Ahead: What do Bonds Really Care About, Rate Cuts or Containment?

Australia got the party started last night with its central bank (the RBA) cutting rates 25bps to a record low 0.50%. Other central banks are expected to unveil their own coronavirus vaccines, um... I mean stimulative moves in short order. The G-7 conference call we discussed yesterday makes it a distinct possibility that we'll see a few banks make announcements even before their next scheduled meetings.

To be clear, the G-7 statement has already been issued. It had the same sort of generic promises that central bankers and finance ministers often have when markets seem to need reassurance (i.e. "closely monitoring" and "standing ready" to do "something"). In this case "something" varies depending on the country, but their specific definition this time was "cooperate further on timely and effective measures." That sounds like coordinated rate cuts or fiscal stimulus to the average market participant.

No doubt monetary policy is a big driver for financial markets, but in this instance, I'm not sure what more it can do but modulate the impact from bigger driver in this case: the market's and the economy's ongoing reaction to coronavirus. Markets have quickly priced in a 50bps Fed rate cut that could happen at any time. Notably though, both stocks and bonds were already well on their way to current levels before those expectations surged.



MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.39	+0.19
MBS GNMA 6.0	100.53	+0.14
10 YR Treasury	4.3602	-0.0724
30 YR Treasury	4.5297	-0.0761

Pricing as of: 7/3 5:59PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.08%	-0.05	0.00
15 Yr. Fixed	6.45%	-0.02	0.00
30 Yr. FHA	6.55%	-0.05	0.00
30 Yr. Jumbo	7.25%	-0.04	0.00
5/1 ARM	7.07%	-0.03	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: 7/3

Perhaps even more notable is the fact that there was no material change to Fed rate cut expectations surrounding yesterday's G7 conference call announcement. That's interesting considering it was billed as some sort of secret clue about rate cuts, not to mention credited for the afternoon's bond market rout.

I'll stand by the fact that yesterday's rout was a frenzied momentum move in response to scripted headlines from big pharma CEOs talking about vaccines. This was first latched-onto by feed-reading algorithmic trading programs and then had a bandwagon effect among human traders. No one wants to be behind the 8-ball when it comes time to trade the bounce we're all worried about. The fact that bonds were flat overnight and remain flat this morning (despite the G7 statement) suggests the focus is indeed on the handling of the virus and not the handling of the monetary policy response.

That's not to say monetary policy WON'T be important, only that the fight against the virus remains the bigger deal. To that end, there is the possibility of more dire scenarios with some truly ridiculous warnings out there (I haven't confirmed the source, but saw at least one mention of worst-case infection rates in the US being up to 60% credited to the CDC). Again... that's preposterous, even though such propaganda is great for low rates. The US is a bit too focused on the US at this point. We need to keep an eye on how the spread of disease is evolving in China. Either their ability to accurately report numbers and news has fallen flat on its face, or we should quickly begin preparing for a reversal of coronavirus sentiment.

When that sentiment reversal comes, there's still the question of what it should mean for bond markets. After all, some of the recent gains are fueled by fearful sentiment and panicked risk-aversion. But a meaningful amount of the gains also come from the real damage that's already been done to global economic momentum. Sorting out this proportion is the biggest unknown, and it will be the biggest deciding factor in where rates go from here in the short term.

Subscribe to my newsletter online at: http://housingnewsletters.com/richhomeloans

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