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UPDATE: Fed Minutes Suggest January Meeting Was a Response to Dec Backlash

We don't have the normal quality of newswires following this release because the Fed was shut down due to weather. That meant reporters didn't get to spend any time with the release before writing up wires. In turn, that meant that I had the rare treat of reading the whole thing before writing anything up. This allowed me to find something far more interesting than all of the crap now being covered by newswires.

"December FOMC communications were reportedly perceived by market participants as not fully appreciating the implications of tighter financial conditions and softening global data over recent months for the U.S. economic outlook. Subsequent communications from FOMC participants were interpreted as suggesting that the FOMC would be patient in assessing the implications of recent economic and financial developments."

This is fairly striking. Remember, "tighter financial conditions" is the Fed's code word for "stock market weakness." The Fed is basically saying "people told us they thought we were out of touch with December's announcement." I'm shocked the Fed wouldn't have assumed that before ever releasing the announcement.

Recall that Fed speeches in late Dec and early January struck a markedly different tone. This is what they're referring with the phrase "subsequent communications." Long story short, they're basically saying they hear us loud and clear and have adjusted their communications accordingly. That suggests at least part of January's dovishness had to do with the Fed's perceived need to backtrack their oblivious tone from December. This is net negative for the bond market, but the saving grace is that the Fed went on to enumerate actual threats.

"FOMC communications, weaker-than-expected data, trade policy uncertainties, the partial federal government shutdown, and concerns about the outlook for corporate earnings" were all cited as reasons for market volatility and shifting investor risk sentiment. This gives us confirmation of the hot topics we'd already assumed would be important to watch heading into March. Notably absent from this passage but included in a subsequent passage were "worries about slowing global economic growth, including in

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/1 7:34PM EST

Average Mortgage Rates

	Rate	Change	Points
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Mortgage News Daily

30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00

Freddie Mac

30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00

Mortgage Bankers Assoc.

30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

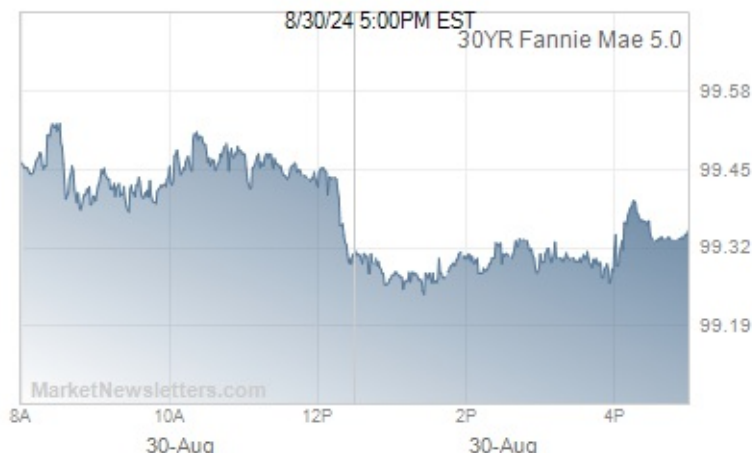
Rates as of: 8/30

Europe and China" as well as "waning fiscal stimulus" (apparently in reference to the initial optimism surrounding the tax bill).

Taken together, the Minutes produced almost no reaction for the US markets although this could still be a work in progress. Bonds are a little weaker than they were before the release, but not yet back to the day's weakest levels. For those interested in the laundry list of bullet points that have finally been compiled, here you go:

- FED MINUTES -FED MEMBERS NOTED TIGHTENING FINANCIAL CONDITIONS AND UNCERTAINTIES SURROUNDING THE EVOLUTION OF U.S. AND FOREIGN GOVERNMENT POLICIES IN JANUARY MEETING
- - FED MINUTES - PARTICIPANTS SAID SOFTNESS IN CORE AND TOTAL INFLATION A REASON FOR PATIENT APPROACH TO POLICY
- FED MINUTES - POLICYMAKERS RESUMED DISCUSSION OF FRAMEWORK FOR MANAGING BALANCE SHEET
- FED MINUTES - POLICYMAKERS FAVORED PATIENT APPROACH TO OBSERVE EFFECTS OF PAST RATE HIKES
- FED MINUTES - SEVERAL PARTICIPANTS SAID RATE HIKES MIGHT PROVE NECESSARY ONLY IF INFLATION OUTCOMES HIGHER THAN BASELINE OUTLOOK
- FED MINUTES - MANY PARTICIPANTS **NOT YET CLEAR WHAT ADJUSTMENT TO RATES MIGHT BE NECESSARY LATER THIS YEAR**
- FED MINUTES - POLICYMAKERS SAID A FRAMEWORK THAT CONTROLLED THE POLICY RATE THROUGH ACTIVE MANAGEMENT OF THE SUPPLY OF RESERVES WOULD HAVE DISADVANTAGES
- FED MINUTES -MEMBERS DECIDED NOT TO EXPRESS A JUDGMENT ON THE BALANCE OF RISKS GIVEN THE DEGREE OF UNCERTAINTY AROUND THE OUTLOOK
- FED MINUTES - SEVERAL PARTICIPANTS SAID SAW FURTHER RATE HIKES APPROPRIATE IN 2019 IF ECONOMY EVOLVED AS EXPECTED
- FED MINUTES - POLICYMAKERS SAID THE BALANCE SHEET NORMALIZATION PROCESS SHOULD SUPPORT THE MEETING OF DUAL-MANDATE GOALS
- FED MINUTES - A FEW PARTICIPANTS SAID SUMMARY OF ECONOMIC PROJECTIONS (SEPS) MAY NOT ACCURATELY CONVEY COMMITTEE'S POLICY OUTLOOK
- - FED MINUTES - POLICYMAKERS 'AGREED' IT WAS IMPORTANT TO BE FLEXIBLE ON BALANCE SHEET NORMALIZATION, WOULD BE APPROPRIATE TO ADJUST IF NEEDED
- FED MINUTES - ALMOST ALL PARTICIPANTS THOUGHT IT **DESIRABLE TO ANNOUNCE BEFORE TOO LONG A PLAN TO STOP REDUCING THE FEDERAL RESERVE'S ASSET HOLDINGS LATER THIS YEAR**
- FED MINUTES - SUBSTANTIAL MAJORITY OF POLICYMAKERS EXPECTED THAT AT END OF ASSET REDEMPTIONS, LEVEL OF RESERVES WOULD LIKELY BE SOMEWHAT LARGER THAN NEEDED FOR CONDUCTING RATE POLICY
- FED MINUTES - MANY POLICYMAKERS SUGGESTED THAT SOME FURTHER VERY GRADUAL DECLINE IN AVERAGE LEVEL OF RESERVES COULD BE APPROPRIATE
- FED MINUTES - A FEW PARTICIPANTS JUDGED THAT THERE WOULD BE LITTLE BENEFIT TO ALLOWING RESERVES TO CONTINUE TO FALL AFTER THE END OF REDEMPTIONS
- FED MINUTES - A COUPLE OF PARTICIPANTS SAID DECREASED LIQUIDITY AT THE END OF 2018 EXACERBATED MARKET MOVEMENTS
- FED MINUTES - A COUPLE OF PARTICIPANTS SUGGESTED A CEILING FACILITY TO MITIGATE TEMPORARY UNEXPECTED PRESSURES IN RESERVE MARKETS COULD PLAY A USEFUL ROLE
- FED MINUTES - POLICYMAKERS SAID AT END OF REDEMPTIONS IT WOULD APPROPRIATE TO INVEST MOST IF NOT ALL MBS PRINCIPAL PAYMENTS IN TREASURIES
- FED MINUTES -FED PARTICIPANTS FELT **KEEPING THE FED FUNDS RATE STABLE 'FOR A TIME' POSED FEW RISKS AT THIS POINT**
- FED MINUTES -FED PARTICIPANTS FELT ASSET VALUATIONS 'LESS STRETCHED' IN JANUARY THAN A FEW MONTHS EARLIER

- - FED MINUTES - ALMOST ALL PARTICIPANTS THOUGHT IT WOULD BE DESIRABLE TO ANNOUNCE PLAN TO STOP REDUCING BALANCE SHEET LATER THIS YEAR (same as above)
- FED MINUTES -MANY PARTICIPANTS OBSERVED IF UNCERTAINTY AROUND THE OUTLOOK ABATED THE FED WOULD NEED TO REASSESS ITS 'PATIENT' STANCE



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