



Stephen Moyer

Sales Manager/Senior Loan Officer NMLS:
268619/CA-DBO268619, New American Funding Corporation. NMLS: 6606, Equal Housing Lender Licensed by the Department of Business Oversight Under the California Residential Mortgage Lending Act CA-DBO268619 Corp. NMLS: 67180 Equal Housing Lender 1615 Murray Canyon Road #1050 San Diego, CA 92108

Office: 619-309-1678
Mobile: 619-895-8128
Fax: (619) 793-1026
stephen.moye@nafinc.com
[View My Website](#)

The Day Ahead: If They Were Smart, Congress Should Ask Powell This Question

Today brings a 2nd day of congressional testimony with Fed Chair Powell, this time before the House Financial Services Committee. The economic IQ varies widely among those committee members. While we'll no doubt hear some hilariously bad or irrelevant questions, there's always a chance that a thought-provoking question elicits a relevant response from Powell.

If I were a member of the House FSOC (shudder), I would have been left wanting yesterday with respect to Powell's treatment of the balance sheet question. He basically "got away" with saying "we're now in a position to evaluate the appropriate timing and approach for ending the balance sheet run-off" without being pressed further.

Why press further? Because the end of the balance sheet run-off is hugely important! In my view, it's one of the reasons bonds have been able to hold near longer-term lows even as stocks have recaptured much of their late-2018 losses. In fact, before the January 30th Fed Announcement, there's no guarantee that bonds would NOT have continued trending higher in 2019, nor is there a guarantee stocks would have pulled up and out of their first post-bounce consolidation pattern.

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
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



	Rate	Change	Points
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

As a remind, in his Jan 30th press conference, Powell said:

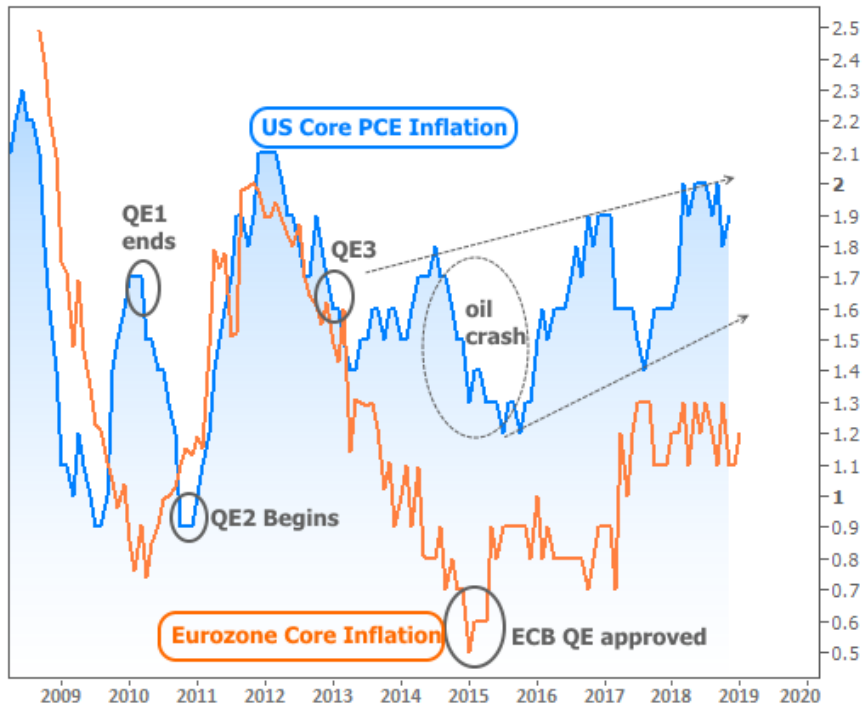
- FED HAS MADE FUNDAMENTAL DECISION TO CONTINUE USING AMPLE SUPPLY OF RESERVES
- FED DISCUSSIONS WILL SOON TURN TO ULTIMATE COMPOSITION OF FED'S BALANCE SHEET
- FED WILL BE FINALIZING BALANCE SHEET PLANS AT COMING MEETINGS
- TO COMBAT A FUTURE ECONOMIC DOWNTURN, BALANCE SHEET WOULD BE USED TO STIMULATE ECONOMY AFTER USING INTEREST RATE TOOLS

Since then, we've heard widespread confirmation from other Fed members that the balance sheet run-off will have a much shorter life span than previously thought. For instance, numbers of \$2-3 trillion were being thrown around about a year ago when it came to the point at which the balance sheet would level off. It's **barely under \$4 trillion** now and the Fed suddenly seems eager to prevent it falling much more than that. If they let the run-off continue all year and end it in December (they love to make big changes in December), it would still be well over \$3 trillion.

A \$3 trillion balance sheet is not something the bond market expected it would be able to enjoy indefinitely. **Why "enjoy?"** Because most of that \$3 trillion would be in bonds that are constantly receiving principal payments, and if the Fed is holding the balance sheet steady, those principal payments are reinvested back into the bond market. In other words, the Fed would once again be the world's biggest buyer of US government debt. That's plenty of justification for bonds to be gaining at the same time as stocks.

If I were an exceptionally intelligent member of the House FSOC, I might go so far as to **ask Powell for more info** on Fed Vice Chair Clarida's comments last week about capping Treasury yields and how the Fed will be assessing the efficacy of bond-buying programs in staving off low inflation. When Clarida said that, I immediately thought of the following chart which any decent analyst is well aware of. It shows unequivocally that **QE works**. By the time markets saw the Fed was willing to give them QE3, inflation panic was over. Meanwhile, the EU showed us what inflation panic could continue to look like without QE.

Core Inflation at Home and Abroad



In other words, there's only one conclusion to Clarida's proposed assessment. QE works and if inflation falters, we can expect the Fed to ratchet the balance sheet right back up and over \$4 trillion. **To recap:** bonds are going to get much more guaranteed buying than they were expecting at some point in the next 9 months, and they have an additional chance at getting an even bigger injection of buying demand as soon as this economic cycle finally begins to shift.

Subscribe to my newsletter online at: <http://housingnewsletters.com/stephenmoye>

thanks for visiting this site

thank you for coming to website. Having been a loan officer for 20+year...I know first hand how important it is to stay on top of the news and event that effect mortgage rates, regulation, and program guidelines. Let this web site be a resource for you.

New American Funding CA-DBO268619 Corp. NMLS: 6606

Equal Housing Lender

Licensed by the Department of Business Oversight Under the California Residential Mortgage Lending Act

Stephen Moye

