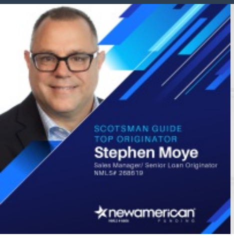

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The Day Ahead: Anything Other Than a Crushing Defeat is a Big Victory

In case you missed yesterday, it was a doozy. Here are a few links that would help you get caught up:

- Here's Why Bonds Loved The Fed (And It's NOT The DOTS)
- Fed Officially Announces Big Bond-Buying Change
- yesterday's Fed Announcement bullets (MBS Live members)
- Fed Bond-Buying Shocker: What Happened and Why Markets Are Reacting (MBS Live members)

Long-story short, the Fed announced an end of the balance sheet runoff process by October 1, 2019, and a decrease of $15bln/month in the runoff amount starting in May 2019. Any decrease in the runoff amount is equivalent to an increase in Fed bond-buying. To be clear, that's an **extra $15bln a month** in May, **another $15bln** a month in October, **PLUS another $15bln** or so from MBS proceeds (which weren't part of the plan over the next 6 months, but will be completely out of the runoff game on October 1st).

The **only catch** with MBS is that when the runoff ends, the MBS proceeds will be diverted to buy more Treasuries. The Fed says this has to do with wanting to be out of the mortgage market, and I suppose that's plausible. The conspiracy theorist might wonder if it has more to do with ballooning Treasury issuance and lackluster fiscal revenue. At first glance, this is bad for the mortgage market.

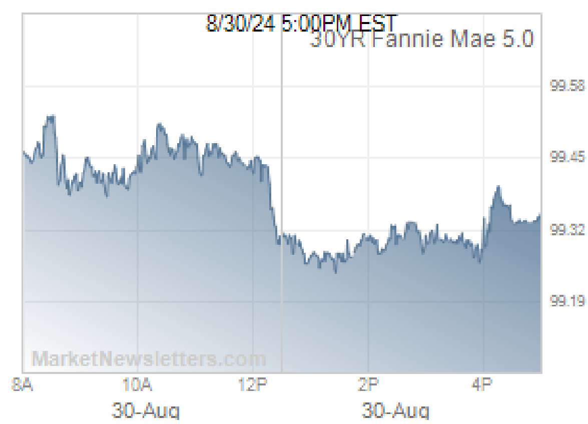
At **second glance**, we already knew the Fed wanted to hold Treasuries and not MBS--an overture that goes all the way back to Bernanke. As long as investors aren't panicked about MBS (and they're not), mortgage rates will be able to hold within a certain range of Treasuries regardless of Fed demand. From there, excess Treasury demand lowers Treasury yields and indirectly benefits MBS/mortgage rates.

From a technical standpoint, **so many good things** happened in the past 24 hours. 2.63% in 10yr yields was confirmed as a ceiling. The short-term consolidation pattern (yellow lines) was broken in our favor. The previous long-term low of 2.55% was broken (and now has a chance to become a technical ceiling). And momentum metrics aren't even at extreme 'overbought' levels (i.e. there was a much stronger case for an overbought

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

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bounce during the late 2018 rally, as seen the white circled areas at the bottom of the chart).

	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

With the above chart in mind, anything other than a substantial sell-off would be a victory today. Simply holding under 2.55% means all of the positive technical cues are confirmed.

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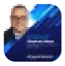

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