



Stephen Moye

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: 6 Years Later, Today's Fed Day Should Be a Bit Different

In the day just past, bonds surged to the best levels since 2017, with 10yr yields coming within 0.002% of the lowest yields since Nov 2016. The key market mover was a speech from European Central Bank President Mario Draghi in which he essentially promised further monetary easing and rate cuts. Bonds lost about half the gains mid-morning following a Trump tweet about progress with China on a trade deal.

In the day ahead, we'll turn our attention to our own central bank. The only major item on the agenda is today's policy announcement from the Fed. So much has changed since the Fed's last meeting (which happened right BEFORE all of the following:

- China trade war escalation beginning with Trump tweets in early May
- British PM May's resignation
- Mexico tariff tweets that pushed yields lower at their fastest pace of the year
- Several downbeat manufacturing reports
- Sharply lower ADP and NFP jobs numbers
- Several other key reports showing slower economic growth and weaker inflation

In response, speculators see the Fed Funds Rate 0.50% lower by the end of the year than they did at the time of the last Fed meeting. Today is our chance to find out if the Fed agrees. The tricky part is they're not going to simply say "yes, we agree that there will be 3 rate cuts in 2019 now instead of possibly just one." Rather, traders will be left to parse the verbiage changes in the 2pm announcement for clues. At the same time, the Fed releases updated economic projections which include the "dots" (a dot plot with each Fed member's view of the Fed Funds Rate in the coming years). Finally, Powell's press conference (2:30pm) can be just as much of a market mover as the announcement/forecasts.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.35	-0.16
MBS GNMA 5.0	99.91	-0.04
10 YR Treasury	3.9039	+0.0424
30 YR Treasury	4.1932	+0.0468

Pricing as of: 8/30 5:59PM 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

To say today's announcement is important would be an understatement. It's not quite on the same level, but nonetheless hearkens back to the June 19th Fed announcement in 2013. That's the one that confirmed the taper tantrum, as well as the sudden shift in momentum that began in the first week of May, 2013. Today's version is reminiscent because it too stands a chance to confirm a potential shift in long-term rate momentum that began in early May. Granted, we're probably not going to move 20bps though!

	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



But we are in similar territory in terms of 10yr yields. The lines below are akin to degrees of strength/weakness. In other words, 2.10% would be neutral today. 2.18% and 2.02% would be the outer limits for a moderately-traded Fed response. There's a chance that things could get even crazier though. Such craziness would push the lower boundary below 2.0% and the upper boundary above 2.20%.



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