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MBS Recap: Fed Threads The Needle as it Preps Markets For Policy Shift

As expected, today was **all about** the Fed-related events. Yields moved exactly as far we thought they might based on the [Day Ahead](#), AND in a friendly direction! But if I had to guess where yields would end up based on the contents of the Fed communications, I definitely would NOT have expected the result we got. While the tone of the announcement was much more dovish than the previous example, it was far from "alarmed." And the unchanged median forecast for rates at the end of 2019 could even have been taken as a cue for bonds to sell-off. After all, everyone's talking about 3 rate cuts in 2019, so if the median Fed member sees the same rate cut probability as they did in March, we have issues, right?

Looking beneath the rate forecast headline, we see a **clear migration** toward lower rate expectations on the part of the Fed. When dealing with medians (as opposed to means/averages) the distribution of votes can change a lot without affecting a median. The Fed forecasts lost essentially all support for higher rate forecasts and gained a ton of support for much lower rates. In march, the lowest rate foreseen by any Fed member was 2.375 (current rate). Today's forecasts contained 7 votes for 1.875% (2 cuts) and 1 vote for a single cut to 2.125%.

In other words, any trader who looked past the 'unchanged 2019 forecast' headline quickly saw the migration. A shift was also apparent in the Fed's removal of the "patient" verbiage as well as the removal of the line saying that an expansion was the most likely outcome. They now say "uncertainties about this outlook have increased." That's their way of **getting in position** for the potential need to execute a clearer policy shift--one that likely involves a rate cut in July unless economic data picks up in early July.

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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

	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

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