Mortgage Market Update



Rich E. Blanchard Managing Director, RICH Home Loans LLC

NMLS: 492461 1550 Wewatta St., 2nd Floor Denver, CO 80202

UPDATE: Already Holding Ground, Bonds **Get Modest Boost From Oil Data**

Bond markets were slightly weaker in the overnight session. With yesterday's rally serving to flush out trading positions that had been betting on higher rates, most traders in a position to buy, did so yesterday. Traders who HAD been inclined to sell are understandably tentative about jumping back on that bandwagon, so the overnight weakness was nominal--largely tracing the improvement in equities markets that began yesterday afternoon.

Another overnight input was a small spike in oil prices just after European markets opened. Once that move in oil topped out, so did bond yields and stock prices. The correlation between oil and bonds is far from perfect though. Even as oil prices slowly climbed back toward overnight highs, bond markets continued to recover (if the correlation was 100%, we would have seen bond yields follow oil prices higher).

Most recently, the 10:30am oil inventory data sent oil prices screaming lower, fully erasing the recovery from yesterday's 12-year lows. In response, bonds are only modestly improving, although the connection to the oil volatility is clear.

Still, with the overall correlation (between oil prices and bond yields) being as imperfect as it is, we can conclude that bonds have other things on their mind today, like the 10yr Treasury auction and the even bigger amount of issuance coming from the record corporate bond that will price today from AB/Inbev.

The purveyor of Budweiser is expected to auction off more than \$50 bln in debt, but with only half of that being in US dollars. Once we get past that issuance and the 10yr auction, bond markets will likely be doing more to show their true hand in the afternoon. Until then, traders seem to be more interested in playing it safe.

Fannie 3.0s are down only 2 ticks on the day and 10yr yields are holding in a range roughly 1.5-2bps higher--currently at 2.119.

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Office: 720.619.9900 Mobile: 303.328.7047 Fax: 214.975.2874 richblanchard@richhomeloans.com View My Website

MBS & Treasury Market Data

Price / Yield	Change
100.40	-0.15
100.78	+0.04
4.4223	+0.0454
4.5610	+0.0549
	100.40 100.78 4.4223

Average Mortgage Rates

	Rate	Change	Points
Mortgage News I	Daily		
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.08%	-0.10	0.63
15 Yr. Fixed	6.61%	+0.01	0.65
30 Yr. FHA	6.89%	-0.03	0.94
30 Yr. Jumbo	7.22%	-0.09	0.58
5/1 ARM	6.56%	-0.04	0.66
Rates as of: 5/17			

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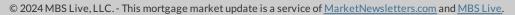


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