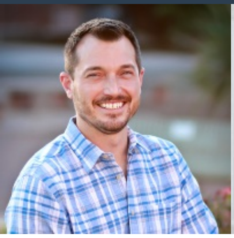

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The Week Ahead: Bonds Approach Inflection Point Amid Data and Fed Minutes

Remember March 15th's Fed Announcement? That was the one where the **entire free world** was utterly and completely convinced that the Fed would hike several weeks in advance of the announcement itself. The entire world was right, of course, but that wasn't the most interesting part of the announcement.

Instead, it was the Fed's rate hike expectations based on the "economic projections" released at every other meeting (aka "the dots," due to the dot plot the Fed uses in its press materials) that set the tone. Late February comments from various Fed speakers--especially NY Fed Pres Dudley--served to **forcibly** raise the consensus on the Fed's rate hike trajectory. Markets quickly priced-in a faster pace of rate hikes in addition to the "done deal" that was the March rate hike itself.

As it turns out, markets priced-in TOO much acceleration. The actual "dots" spoke to a FOMC that wasn't quite so gung-ho on accelerating the pace of rate hikes. Just last week, we got more confirmation of a cautious Fed. This might seem a bit **counterintuitive** based on the "tough talk" in late February, but it now seems that the Fed's actual goal is to simply make sure markets understand they are definitely in "hike mode"--just not in super crazy aggressive mega scary hike mode.

This week brings the release of the Minutes from the most recent meeting. I'm not sure exactly how much more clarity we are able to glean given that so many Fed speakers have taken the podium in recent weeks with fairly blunt assessments of what they think should happen with monetary policy. The **wild card** is the "fan charts" announced in minutes of the last FOMC meeting. From those Minutes:

> *Participants considered a revised proposal from the subcommittee on communications to add to the Summary of Economic Projections (SEP) a number of charts (sometimes called fan charts) that would illustrate the uncertainty that attends participants' macroeconomic projections. The revised proposal was based on further analysis and consultations following Committee discussion of a proposal at the January 2016 meeting. Participants generally supported the revised approach and agreed that fan charts would be incorporated in the SEP to be released with the minutes of the March 14-15, 2017, FOMC meeting*

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.09	+0.31
MBS GNMA 6.0	101.03	+0.29
10 YR Treasury	4.5138	-0.0657
30 YR Treasury	4.6711	-0.0579

Pricing as of: 5/3 5:04PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.28%	-0.09	0.00
15 Yr. Fixed	6.75%	-0.07	0.00
30 Yr. FHA	6.70%	-0.12	0.00
30 Yr. Jumbo	7.48%	-0.07	0.00
5/1 ARM	7.35%	-0.07	0.00
Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 5/3

In other words, this will be our **first look** at the Fed's new fan charts. They might be a thing. They might suck. We don't really know yet. What we do know--as discussed above--is that the general takeaway from the last set of projections was that rate hikes were happening more slowly than markets expected. We also know that, while the median view on rate hike timing didn't move much, some of the "dots" on the Fed's dot plot definitely moved higher. To whatever extent the Fan charts show the range of uncertainty generally favoring faster rate hikes, it could provide another nudge to market expectations for the rate hike path.

In **plain English** now... this new stuff might make it look the Fed is more keen on hiking rates a bit faster than we thought. That could put upward pressure on rates. (Granted, it could also go the other way too, but it feels scary to hope for such positive eventualities given the regularity and severity of the beat-downs we've received since the election... easier to plan for the worst and be pleasantly surprised).

In any event, it looks like bonds are getting ready to make a **bigger move** in one direction or the other. There's a consolidation in play ever since the healthcare bill drama worked its way through markets in late March. This can be viewed two ways. First, note the simply "ascending triangle" in the upper pane of the following chart. This traces the lower highs and higher lows in 10yr yields. The midpoint is running into 2.42% this week.

Second, there's 2.42% itself. It has the **street cred** to stand alone as an important pivot/inflection point in the bigger-picture post-election range. In fact, if we throw out a bit of the most panicky sell-offs, 2.42% is probably the best candidate for a midpoint of the range. Yields knocked their heads against that ceiling all week last week (and for a few days in the previous week as well). That's **encouraging**, to some extent, but I'd be more willing to view that pattern as more of a gravitation toward a central source of gravity--a sort of planetary orbiting, if you will--rather than some confirmation that yields are unwilling to break above that ceiling.

Either way, we should know more about how bond markets feel about 2.42 (and thus about the broader post-election range) by the end of the week. Even if the Fed doesn't end up being this week's market mover, there are plenty of other **big-ticket economic events**, not the least of which being NFP Friday. Before that, the economic calendar ramps up quickly with ISM Manufacturing coming up at 10am this morning. Tuesday and Thursday have comparatively fewer big-ticket events, but that's more than made up for with Wednesday and Friday's schedules.

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