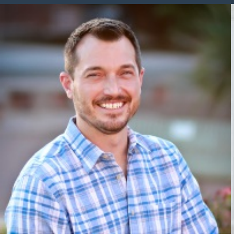

The Arizona Loan Baron

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The Day Ahead: Paying The Price For Asymmetric Risk

Last week's key events were the Fed announcement on Wednesday and the jobs report on Friday (with other econ data playing a strong supporting role). The Fed helped bonds. They were much friendlier than expected, but critically, they justified that friendliness with concerns over economic growth. In short, they are watching economic data like hawks (or doves?) for any sign of weakness. Such weakness would justify an indefinite pause in the rate hike cycle.

To hear the Fed say it last week, it seems they're **gearing up for the next recession** or contraction. There was an air of concern in Powell's press conference. His tone was more staid and somber than normal, but not panicked. Had Friday's NFP and other data come in weaker than expected (or merely AS WEAK as expected), Wednesday's Fed communications would have seemed perfectly reasonable.

But the **opposite** happened!

Friday's strong jobs report defied the average forecaster's expectations. NFP was supposed to have been significantly weaker due to the government shutdown. Instead, the only weakness seen was in the form of a revision that took last month's numbers (the product of a survey conducted well before the shutdown) back down to levels that are still historically strong.

The expectations for weakness created an **asymmetric risk** for bonds. Everyone "knew" NFP would be weaker, so markets were more than happy to buy a few more bonds before the report hit the screens. That meant there wasn't very much upside for bonds, regardless of the jobs number. On the other side of the coin, very few had accounted for a huge number like 304k, let alone any significant beat. As such, there was plenty of downside in the event of unexpected strength.

It was a testament to the overall health of the bond market to see yields hold as low as they did in the first 90 minutes following NFP. It wasn't until 3 more reports joined in with stronger-than-expected readings that bonds began looking queasy. After all, much of the recent rally was based on the Fed's concern about the economy, and here we had 4 economic reports suggesting such **concerns were silly.** The Fed told us how closely they'd be watching. Markets now had to wonder how different Wednesday would have been if the Fed had seen Friday's data. The estimated answers flashed in red on bond screens.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.36	+0.07
MBS GNMA 6.0	100.04	-0.02
10 YR Treasury	4.6114	-0.0151
30 YR Treasury	4.7080	-0.0238

Pricing as of: 4/19 12:10PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.44%	+0.01	0.00
15 Yr. Fixed	6.85%	+0.01	0.00
30 Yr. FHA	6.92%	+0.02	0.00
30 Yr. Jumbo	7.62%	0.00	0.00
5/1 ARM	7.41%	+0.01	0.00
Freddie Mac			
30 Yr. Fixed	7.10%	-0.34	0.00
15 Yr. Fixed	6.39%	-0.37	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.13%	+0.12	0.00
15 Yr. Fixed	6.64%	+0.18	0.64
30 Yr. FHA	6.90%	+0.10	0.99
30 Yr. Jumbo	7.40%	+0.27	0.46
5/1 ARM	6.52%	+0.11	0.60

Rates as of: 4/19

Where does that leave us? Data is lighter this week, with ISM Non-Manufacturing being the only upper-tier report (Tuesday). The 3, 10, 30yr auction cycle (on Tue/Wed/Thu respectively) presents a bit of a challenge but could also serve as a barometer for bond market sentiment in light of last week's developments.

From a technical standpoint, bonds may have taken the earliest possible opportunity to bounce at overbought levels. This can be seen in the form of the fast stochastic (red/blue lines) hitting the overbought floor (lower horizontal blue line) and bouncing higher. Fast stochastics speak to short term momentum. The slow stochastic below it (green/teal lines) suggests neutral momentum in the bigger picture.

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I would appreciate the opportunity to share with you my extensive mortgage lending experience. My client focused approach has allowed me to build long lasting relationships and partnerships throughout Arizona. I know this market. I live here and work here. Please allow me the opportunity to be your mortgage lending partner.

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