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The Week Ahead: Bond Markets Brace for Rate Hike Confirmation. It Won't Take Much

To reiterate the most important takeaway from last week, the verbiage change in the FOMC Announcement was a **big deal**. When viewed in conjunction with the Minutes from the previous meeting, which showed the Fed was ready to hike based on the domestic situation but only held off due to global developments, the most recent announcement ends up looking like a courtesy reminder about a December hike.

In other words, the Fed had what they needed to hike back in September, but concerns over China were fresh enough for them to hesitate. The fact that they dropped the phrase that alluded to China confirms that the global situation isn't currently looking like the impediment it was. The addition of the specific reference to the December meeting as a potential time to hike (first time they've made such a reference in 15 years) **all but confirms** their intentions. At this point it would take some truly alarming data to give them pause again.

If any data has the ability to be "alarming enough" to give the Fed pause, it's this week's. Naturally, Friday's **NFP is the biggest deal**, but several of the preceding reports are no slouches. This starts today with ISM Manufacturing at 10am. Tuesday is the only day without a top-tier release and Wednesday, of course, begins the traditional pre-NFP acceleration of data with ADP employment and ISM Non-Manufacturing.

The 'strong vs. weak' data assessments will be a bit different this time around. Several Fed speakers have been out saying weird things about the level of payroll strength needed to eliminate labor market slack. They've been mentioning numbers in the mid 100k's--definitely **not** what we're used to when it comes to "strong employment." In other words, the data only has to hit a **low bar** to keep the Fed on track for a December hike.

What does that mean to long-term bond markets? The eventual hike itself means less than the run up to the hike. It's during that run that we tend to see most of the reaction to the expected future developments. 2004 was a good example of this where 10yr yields rose abruptly leading up to the hike **only to begin falling** by the time the Fed actually began raising rates.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.55	-0.25
MBS GNMA 6.0	101.31	-0.18
10 YR Treasury	4.3886	+0.0117
30 YR Treasury	4.5320	+0.0259

Pricing as of: 5/17 5:24AM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.02%	+0.03	0.00
15 Yr. Fixed	6.53%	+0.03	0.00
30 Yr. FHA	6.55%	+0.03	0.00
30 Yr. Jumbo	7.31%	+0.01	0.00
5/1 ARM	7.24%	+0.04	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: 5/16

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10's are currently looking like they've gotten back to their longer term range between 1.98 and 2.29. The central pivot point of 2.12-2.14 is currently **acting as a floor** that 10's will have a **hard time** getting through without significant motivation/help from data or events. There are also consolidating trendlines (white lines in chart below) that may offer some support/resistance before getting to the 2.29/1.98 levels. It goes without saying that the risk of testing those higher yields is bigger than the potential to move back to the lower yields.

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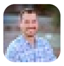
The Arizona Loan Baron

The Arizona Loan Baron is at your service!

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.

The Arizona Loan Baron 

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