



The Arizona Loan Baron

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A Message from The Arizona Loan Baron:

"This week will be an important one for interest rates..."

The Week Ahead: Fed Week Is Here. Let's Look at Possibilities

More than anything else over the past 3 weeks, a shift in tone among Fed speakers has been at the heart of the year's best bond market rally. Seemingly overnight, the average Fed member went from saying things like "3 more hikes in 2019" to "**very close to neutral.**" Markets would do well to remember that a few Fed speeches from the past have indicated the Fed's willingness to take rates temporarily above neutral, if needed, but that was really only a risk in the event economic growth continued to accelerate.

While economic growth is still relatively strong, there **doesn't** seem to be much concern about it accelerating at the moment. That means that the neutral Fed Funds Rate is probably the point at which rate hikes will pause. Thus, "being close to neutral" does indeed mean being close to the end of this rate hike cycle.

With all of the above in mind, this week's Fed announcement is exceptionally important. It will provide the official canvas for the Fed to paint its most up-to-date rendition of current economic realities. Powell will have a chance to clarify his apparent **dovishness** from late November. And the dot plot (economic projections) will give us an updated look at where the rest of the Fed sees rates going in 2019 and beyond. So far, the dots have been gradually moving toward higher rates by the end of 2019. This Wednesday may be the **first time in 2 years** that we see the dots move in the other direction, even if only slightly.

The **only reason** this wouldn't be cause for celebration is that markets are generally expecting a more dovish Fed this week. They've heard the same speeches we have. The only question is "how dovish will they be?"

Actually, there are other questions. The more important question is "how much dovishness will be justified by upcoming economic data and global financial conditions?" After all, **the Fed doesn't decide** where the economy is going. They only choose how softly they'll walk in response and what size of stick to carry.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.39	+0.19
MBS GNMA 6.0	100.53	+0.14
10 YR Treasury	4.3602	-0.0724
30 YR Treasury	4.5297	-0.0761

Pricing as of: 7/3 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.08%	-0.05	0.00
15 Yr. Fixed	6.45%	-0.02	0.00
30 Yr. FHA	6.55%	-0.05	0.00
30 Yr. Jumbo	7.25%	-0.04	0.00
5/1 ARM	7.07%	-0.03	0.00
Freddie Mac			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.03%	+0.09	0.62
15 Yr. Fixed	6.56%	+0.09	0.54
30 Yr. FHA	6.90%	+0.11	0.95
30 Yr. Jumbo	7.11%	-0.01	0.50
5/1 ARM	6.38%	+0.11	0.54

Rates as of: 7/3

If things go our way in the coming weeks, history may provide a good baseline for how much and how quickly a rally could progress. The last 5 weeks already look an awful lot like the 5 weeks that started the prolonged rally in the middle of 2017. Momentum metrics are also in almost exactly the same position. The **takeaway** from this hypothetical scenario would be 10yr yields capable of a rally that ends near 2.6%. We can look at a negative outcome tomorrow. I wouldn't do that to you on a Monday!



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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.

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