

THE FEDERAL SAVINGS BANK

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The Day Ahead: Fed Hard at Work Dialing in Porridge Temp

If you're not familiar with these terms, you'll need the following definitions for today's commentary: [hawkish/dovish](#).

The Fed is a key ingredient in the market movement outlook going forward. This isn't to say that they will decide which way the market is going to move in the long run (that's the job of economic data, trade war developments, etc), but they can certainly play a role in determining **how quickly** markets get wherever they're going, and whether or not we see volatility in the process.

With that in mind, the Fed appears to be in a state of transition with respect to its message. Investors (read: the stock market) criticized them for being **"too cold"** in December ([here's our coverage](#)). Then in January, the Fed was arguably **"too hot"** in its haste to soothe markets ([here's that coverage](#)), prompting the assessment of their policy being "noticeably friendlier than most anyone guessed."

3 weeks after that January announcement, we got the minutes from the meeting in which it was drafted. They provided insight that suggested the proverbial bowl of porridge might not have been as hot as it seemed. Specifically, the Fed said

"December FOMC communications were reportedly perceived by market participants as not fully appreciating the implications of tighter financial conditions and softening global data over recent months for the U.S. economic outlook. Subsequent communications from FOMC participants were interpreted as suggesting that the FOMC would be patient in assessing the implications of recent economic and financial developments."

Translation: we heard your whining, stock market, and we did something about it.

Am I taking some liberties in oversimplifying that translation? Absolutely, but even if we break it down a bit less and keep things more objective, we're left with the concept of the Fed being made aware that markets perceived December's announcement as being **"too unfriendly"** and that the Fed had since convinced markets it would "be patient."

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

Regardless of the interpretation (i.e. you don't have to agree with my blunt translation above), the fact is that the Fed doesn't have a history of addressing the stock market's discontent with Fed policies. The level of cognizance of that discontent and their apparent need to address it in the Minutes suggests that recent Fed communications (including the announcement itself) have been informed--if not outright tainted--by this implied need to **set the record straight**.

In other words, some of the Fed's dovishness in January was **designed to soothe** the market. I'm not saying the Fed changed its policy stance (with respect to rate hike timing or bond buying), but we can't rule out the possibility that they emphasized their more dovish leanings.

Markets agree with me, according to Thursday's trading, with both stocks and bonds losing ground with no other solid explanation than a "hawkish Fed trade."

With all of the above in mind, today offers a very **early look** at how the Fed may seek to cook up a perfectly warm bowl of porridge for the March meeting. There are SEVEN Fed speakers on tap with a glut of several speeches from 4 members being released at 1:30pm (Clarida, Bullard, Harker, Mester). Williams and Rosengren will be out at 10:15am, and Bostic has already made several comments. If we see a common theme emerge from the speeches, we'll know that's the direction the Fed is heading in March, barring unforeseen forces that suggest a course correction (or porridge re-heating, perhaps).

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