MONEY HOUSE

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The Day Ahead: How Much Might Today's Fed Minutes Matter?

Today's biggest calendar item is the release of the FOMC Minutes at 2pm. The Minutes provide synopsis of the meeting that took place in the 2 days leading up to the official Fed announcement in late July. That announcement was very little changed from the previous announcement, but the Fed did take the opportunity to telegraph September's widely anticipated launch of the balance sheet normalization program.

The **normalization program** was laid out in detail at the Fed's June meeting (here it is, if you're interested). In a nutshell, the Fed buys between $20-40 bln/month currently in MBS alone The wide range is a factor of the original MBS prices/coupons.

The Fed was **always** buying MBS, even the higher rate stuff in 2013/2014. Clients with higher rates were more and more likely to refi in early 2015 and especially mid-2016. Because the Fed reinvests the principal of any MBS prepayments, and because a refi pays off the entire principal balance, the **Fed bought more MBS** in months where lower rates were creating more rapid prepayments. When rates are higher or flatter, there are fewer prepayments coming in, and thus the reinvestment amounts are lower (here's a list where you can see how much it varies).

If you pull up that list, or if you just take my word for it that the slower months are closer to $20 bln, then the Fed's normalization plan is quite interesting to MBS. Reason being: it caps the amount of monthly reinvestment reductions at $20bln. That means on the slow months of MBS repayments, the **Fed won't be buying any MBS**. Although the Fed has been clear to say this would be a gradual and reversible process, we have yet to see MBS "price-in" that reality.

The risk is that markets are **waiting** until they have **confirmation** of each reduction in the reinvestment amount before showing us their full reaction. I don't think that's a major risk or that it's worth any major change from current trading levels, but it could be worth an unfriendly bump when the time comes. To whatever extent today's Minutes confirm or clarify the timing and, more importantly, the expected pace (if there is any "expectation") of reinvestment tapering, bond markets might have a bit of a reaction.

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.80	-0.02
10 YR Treasury	4.9125	-0.0174
30 YR Treasury	5.2783	-0.0299

Pricing as of: 11/2 8:49AM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

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Something new and different would have to come to light in the Minutes in order for us to see a major reaction--perhaps a refocusing of discussion on rate hike timing. After all, THAT seems to be where the disagreement has been among various Fed speakers who've taken the podium since the July Announcement. Some want to hike more. Others want to stop completely for now. Today's Minutes may give us a better idea of where the majority sits on that issue.

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