

THE FEDERAL SAVINGS BANK

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"Mortgage backed securities hanging in there today, despite equities' robust rally!"

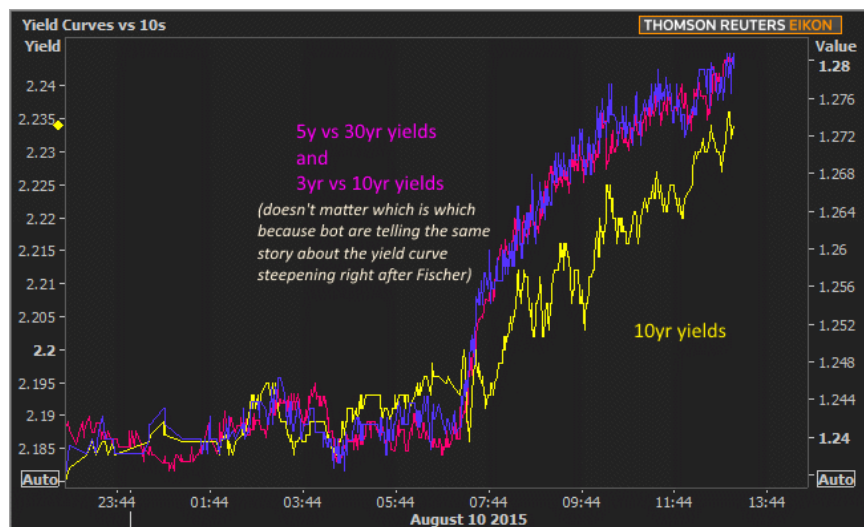
MBS Mid-Day: Luck Runs Out for Bonds, but MBS Outperform

Today has been all about yield curve **steepening**. That means that longer-lasting bonds have been doing worse than shorter term bonds. For instance, 10yr yields are up 6.4bps while 2yr yields are up only 0.8bps.

There was **one clear source of motivation** for the steepening of the yield curve. Just after 4am, Fed Vice Chair Fischer said that economy was nearly at full employment despite a lack of inflation. He went on to frame the lack of inflation with low oil and raw material prices, saying, "These are things which will stabilize at some point."

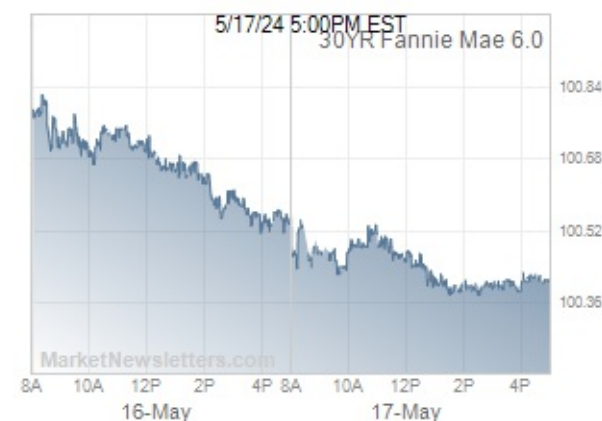
These comments are **not all that different** from what several Fed speakers have suggested. Fischer diverged from the Fed's recently beaten path in saying that the neutral Fed Funds rate may be lower than it has been in the past. In other words, "yeah, we are talking about raising rates, but you might not want to view that in the same light as you had in the past."

The trading reaction was fairly swift, but again, it was **easiest to see** in the yield curve as opposed to individual yield levels.

**MBS & Treasury Market Data**

	Price / Yield	Change
MBS UMBS 6.0	100.40	-0.15
MBS GNMA 6.0	100.78	+0.04
10 YR Treasury	4.4223	+0.0454
30 YR Treasury	4.5610	+0.0549

Pricing as of: 5/17 5:59PM EST

**Average Mortgage Rates**

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	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: 5/17

The MBS coupons that affect rate sheets aren't quite as long-lasting as 10yr Treasuries, on average. Because longer-lasting bonds are doing worse today, MBS are doing better, relatively.

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Responsive service, experienced expertise

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