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The Day Ahead: Back to Business With Plenty of Market Movers on Tap

While there were plenty of scheduled data and events last week, their impact was severely limited by the holiday trading dynamics (where bonds usually end up doing whatever they want to do, regardless of data). This week may well be a different story.

Not only do we have 5 full business days this time around, but the **data is in a completely different league**. In fact, this week's data could be some of the only data that markets are going to care about given the relative certainty of a Fed rate hike on December 16th. Chief among these is the Employment Situation on Friday. After all, if there's one report where an exceptionally weak result could lead markets to question the Fed's resolve, that's it. Conversely, a strong result would squeeze every last ounce of buying demand out of the bond market. Fortunately, that's already been largely accomplished.

The following chart shows net positions among primary dealers. Most are the **"shortest"** (i.e. most negative for bond markets) they've been in months, or close to it. The second chart of 2yr yields is a good proxy for rate hike sentiment (higher = more likely to hike).

MBS & Treasury Market Data

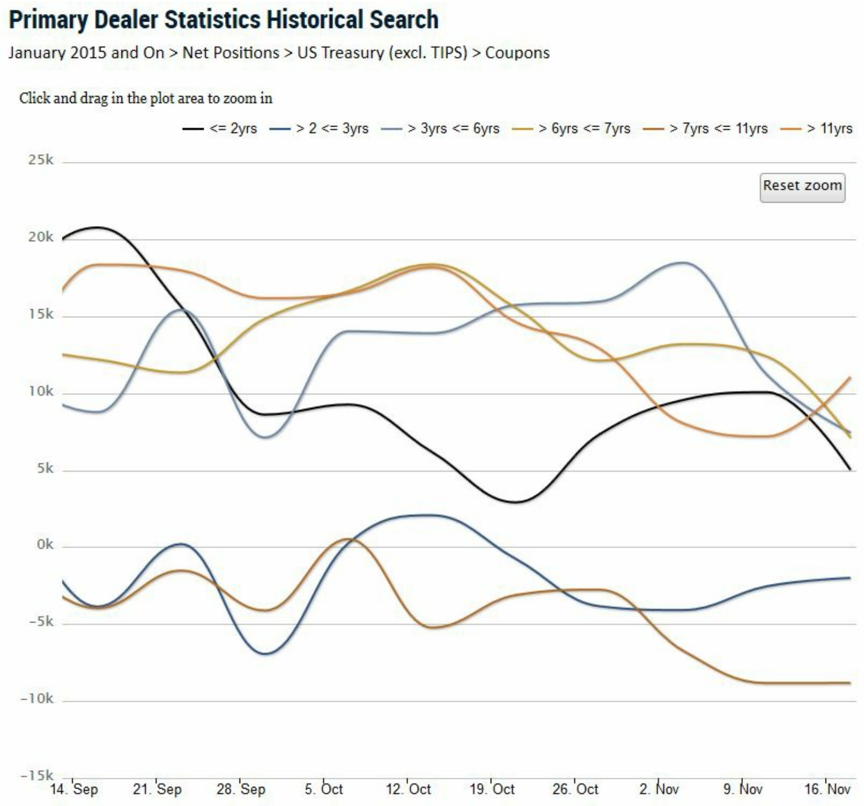
	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/1 7:34PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30



Bottom line, markets are **as certain as they've ever been** that the Fed will hike. But the hike isn't without its paradoxical side effects. First off, we can observe the slight uptick in dealer long positions in that longer term segment of the chart above. This has been and will be an ongoing theme surrounding the Fed rate hike--namely, that a hike doesn't necessarily have to damage the long end much more than it already has. In the last 2 major hiking cycles, the lion's share of the movement was reserved for shorter term yields which did more to rise and meet longer term yields, relatively speaking (yes, 10's got killed in 1994, but not nearly as much as 2's, and the dichotomy was even more pronounced in 2004).

In the past, the gradual rise in longer term rates that has traced the increasing Fed Funds Rate has been a factor of mere corrections/consolidations in the longer term bull trend for bond markets. I don't say the following to make any sort of prediction, but rather to keep things in perspective. We need to **divorce ourselves from the notion** that short term rates have bottomed out in the US. We need only to look at more mature economies for examples (near/sub zero rates in Japan and Europe).

We can also keep in mind what financial markets are obviously keeping in mind: there's plenty of reason to be skeptical about long term global economic growth and inflation--a fact that bodes well for longer term yields. Whether that means falling yields or simply "not rising as fast" in the coming months **remains to be seen**. The point is that we're not necessarily staring down the end of the world as we know it, and in fact, we could be far from it.

With skepticism over growth and inflation in mind, we'll hear from the European Central Bank this Thursday, with widespread expectations for an increase in QE or a rate cut. Markets view Draghi as having telegraphed some sort of action, anyway. Apart from the ECB and NFP, there are plenty of other potential market movers. **Even if** these don't materially change the Fed rate hike outlook, we can think of them as beginning to shape the longer term outlook for the Fed rate hike path. In other words, weaker data slows down the trajectory and vice versa. **Point being:** markets can still respond to this data even though the biggest consequence (Dec rate hike) is already in the cards.

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I've dedicated my 22 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

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