MBS & TREASURY MARKETS

Daily Coverage. Industry Leading Perspective.

The Day Ahead: Slow, Slightly Stronger Start to a Potentially Volatile Week

For all the time we spend pushing back on the notion that the Fed Funds Rate is a root cause for volatility in longer-term rates, that push-back always carries a notable caveat: Fed Funds Rate expectations definitely have a direct correlation with longer-term rates.

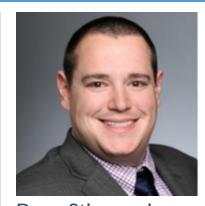
There are two reasons those expectations can change: markets are either assuming the change due to economic data or markets are reacting to a change in the Fed's reaction function. Fed speeches and especially the quarterly dot plot (a summary of each Fed member's base case rate expectations) account for changes in the reaction function.

This is why the dot plot can be such a big market mover. It also causes volatility because the market spends 3 months trying to get inside the Fed's head and the dots let the market know how good of a job they did.

Bottom line: with a fairly big shift in labor market metrics over the past 3 months, Wednesday afternoon's dot plot is this week's focal point for potential volatility.

Bonds are starting the week slightly stronger after holding fairly steady in the overnight session.





Drew Stiegemeier
Mortgage Banker, Frontier
Mortgage
frontierhomemortgage.com/drew
P: (636) 898-0888
M: (618) 779-7507
1406168





Mike Mihelcic
Associate, Re/Max Alliance
www.remax.com/.../102293806
P: (618) 656-2111
M: (618) 339-5752
remaxmike2012@gmail.com
1121 University Drive
Edwardsville IL 62025

