MORTGAGE MARKET IN REVIEW

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Market Comment

Mortgage bond prices finished the week lower which put upward pressure on rates. Trading was very volatile with large movements throughout the week. The Fed raised rates 50 basis points Wednesday and released their plans to reduce their balance sheet. The short-term reaction was good for stocks and bonds, but the positive movements were short-lived as selling pressure emerged Thursday. The data was mixed. ISM Index was 55.4 vs 57.5. Factory orders rose 2.2% vs 1.2%. ADP employment was 247K vs 400K. The trade deficit was $109.8B vs $104B. Weekly jobless claims were 200K vs 182K. Productivity fell 7.5% vs down 4%. Unemployment was 3.6% as expected. Payrolls rose 428K vs 415K. The higher payrolls figure added to wage inflation fears. Mortgage interest rates finished the week worse by approximately 3/4 of a discount point.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
Consumer Price Index	Wednesday, May 11, 8:30 am, et	Up 0.4%, Core up 0.2%	Important. A measure of inflation at the consumer level. Weaker figures may lead to lower rates.
Weekly Jobless Claims	Thursday, May 12, 8:30 am, et	205K	Important. An indication of employment. Higher claims may result in lower rates.
Producer Price Index	Thursday, May 12, 8:30 am, et	Up 0.5%, Core up 0.6%	Important. An indication of inflationary pressures at the producer level. Weaker figures may lead to lower rates.

U of Michigan Consumer Sentiment	Friday, May 13, 10:00 am, et	63.8	Important. An indication of consumers' willingness to spend. Weakness may lead to lower mortgage rates.

Fed Balance Sheet

The Federal Reserve raised rates 50 basis points last week and detailed their plans to reduce their MBS holdings. The Fed stated: "Consistent with the Principles for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in January 2022, all Committee participants agreed to the following plans for significantly reducing the Federal Reserve's securities holdings.

The Committee intends to reduce the Federal Reserve's securities holdings over time in a predictable manner primarily by adjusting the amounts reinvested of principal payments received from securities held in the System Open Market Account (SOMA). Beginning on June 1, principal payments from securities held in the SOMA will be reinvested to the extent that they exceed monthly caps.

For Treasury securities, the cap will initially be set at $30 billion per month and after three months will increase to $60 billion per month. The decline in holdings of Treasury securities under this monthly cap will include Treasury coupon securities and, to the extent that coupon maturities are less than the monthly cap, Treasury bills.

For agency debt and agency mortgage-backed securities, the cap will initially be set at $17.5 billion per month and after three months will increase to $35 billion per month.

Over time, the Committee intends to maintain securities holdings in amounts needed to implement monetary policy efficiently and effectively in its ample reserves regime.

To ensure a smooth transition, the Committee intends to slow and then stop the decline in the size of the balance sheet when reserve balances are somewhat above the level it judges to be consistent with ample reserves.

Once balance sheet runoff has ceased, reserve balances will likely continue to decline for a time, reflecting growth in other Federal Reserve liabilities, until the Committee judges that reserve balances are at an ample level.

Thereafter, the Committee will manage securities holdings as needed to maintain ample reserves over time."