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and the beginning of this year. And they are not going to wash out of the inflation data until later in this year. But the fact that energy prices have stabilized means that the pressure from that source is diminishing. As the labor market continues to improve and as our confidence in that forecast rises, at least for me my confidence will also rise that inflation will move back up towards 2 percent. I expect that over time it will put upward pressure on core inflation."

It looks like future rate hikes may be more gradual than they have been historically. The Fed historically has moved aggressively when increasing or reducing interest rates. It seems from Janet Yellen's comments that the Fed may be more accommodative when going in the path to increase interest rates. Over the course of the last 20+ years that I have been in the mortgage industry, I have seen the Fed increase or decrease rates at consecutive FOMC meetings over the course of 1-2 years. With eight meetings per year and up to a .25% rate change at each meeting, we typically can see a change in rates of up to 2% in one twelve month period. The Fed may be more cautious with their rate policy in the coming months and years. To quote Janet Yellen from yesterday's press conference:

"Let me emphasize that the importance of the initial increase should not be overstated. The stance of monetary policy will likely remain highly accommodative for quite some time after the initial increase in the federal funds rate in order to support continued progress towards our objectives of maximum employment and two percent inflation."

The key words here are "highly accommodative." This means the Fed will continue to be cautious in increasing the Fed Funds

interest rate and may not increase the Fed Funds rate at each consecutive meeting once they have started to increase rates. I feel like the recent .5% mortgage rate increase is due to bond traders unwinding their current positions by selling off bonds in anticipation of the rate increase. We have seen bond yields rise since April 27th and that has to do with the bond sell-off in the markets. If the Fed continues to delay increasing the Fed Funds rate, the market will force the issue by incorporating that rate increase into how bonds are traded, as we have already seen with the current high bond yields and the corresponding increased mortgage interest rates. Once the Fed does increase the Fed Funds, we should see bond traders come back to purchasing bonds at the higher yields, which will reduce bond yields and reduce mortgage rates. There should be a window of reduced mortgage rates that corresponds to the Fed's first rate hike. Until that happens, we will continue to have a volatile mortgage rate environment with the market taking matters into its own hands until the Fed takes action and increases the Fed Funds interest rate.

Finally, I would like to express sheer joy regarding the Golden State Warriors first NBA championship in 40 years. As a long suffering Warriors fan who lives and grew up in Oakland, this victory has been a long time coming. I have been privileged to have been able to go to most of the playoff games this year including two of the games in Oakland in the NBA Finals.

As always, your loan guy,
Viral (Vic) Joshi

P.S. If you want to get more timely market updates, I have a weekly newsletter that goes out via e-mail. E-mail me, **viral@vicjoshi.com**, so that I can put you on the mailing list.

Vic's

Mortgage Report

"Home of Free Mortgage Consultation"

Viral (Vic) Joshi

Branch Manager/
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Hello Friends,
The results of the Federal Reserve's latest Federal Reserve Open Market Committee Meeting, FOMC meeting, saw

the Fed get closer to increasing the Fed Funds interest rate. This meeting concluded on June 17th with 15 of the 17 voting members predicting one or more rate hikes this year and only two voting members predicting the first rate hike to happen in 2016. While the consensus is for an increase to the Fed Funds interest rate, the Fed held off on the increase at the June 17th meeting. The market believes that the current futures for the first rate hike in 2015 are a 17% chance in September 2015, a 34% chance in October 2015, and a 55% chance in December 2015. The Fed continues to look to inflation hitting their 2% target and for an improved labor market before pulling the trigger on a rate hike. Despite the 15 to 2 consensus for a rate hike this year, the Fed is still reluctant to give the market a clear indication that rates will move up this year as seen in some of the comments from Fed president Janet Yellen:

"Overall inflation is likely to run at a low level for a substantial period of time. The big declines in energy prices came towards the end of last year

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