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# Why Did Rates Completely Ignore This Week's Bad News?

This week, the Fed announced a reduction in its bond buying. In separate news, the big jobs report was much stronger than expected. Both of these events should have pushed rates higher. So why didn't they?

Let's start with the Fed and its bond buying adventures (also known as QE or "quantitative easing"). The following chart of 10yr Treasury yields (a broad benchmark for "rates") shows the paradoxical reactions to the Fed's previous decisions to stop buying bonds.




In other words, we knew a paradoxical reaction was a **possibility**, even though past precedent is never a guarantee. Beyond that, we also knew that rates were moving higher in anticipation of the Fed's eventual exit. In fact, by last week, they'd already covered as much ground as they did in 2013.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.27% | **0.00** | 0.00 |
| 15YR Fixed | 6.92% | **0.00** | 0.00 |
| 30YR FHA | 6.91% | **+0.01** | 0.00 |
| 30YR Jumbo | 7.52% | **-0.03** | 0.00 |
| 7/6 SOFR | 6.70% | **-0.08** | 0.00 |
| 30YR VA | 6.92% | **+0.01** | 0.00 |

Rates as of: 11/2

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.78 | **-0.08** |
| 10 YR Treasury | 4.9373 | **+0.0325** |
| 30 YR Treasury | 5.3098 | **+0.0203** |

Pricing as of: 11/3 10:53AM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 21 | 195 | +3.39% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Aug | 71.2 | 0% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Oct | 29 | -9.38% |

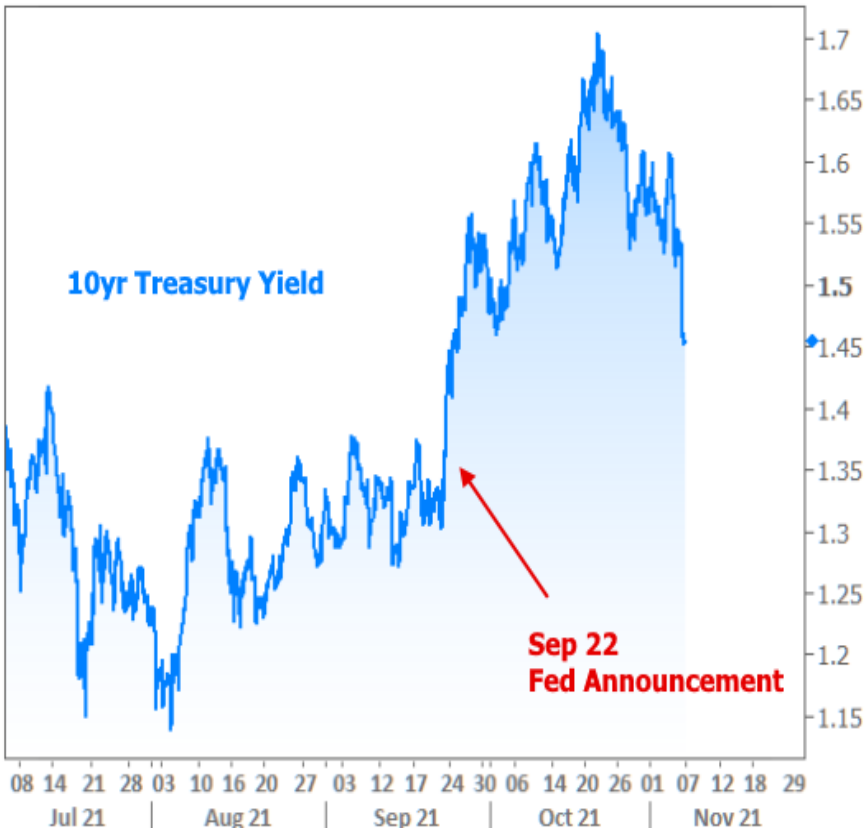
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All that to say the reaction to the Fed announcement has arguably been in the works for more than a year. In that sense, it definitely **did** push rates higher, but far in advance. September 22nd offered the most recent example when the Fed most overtly telegraphed the contents of this week's announcement.

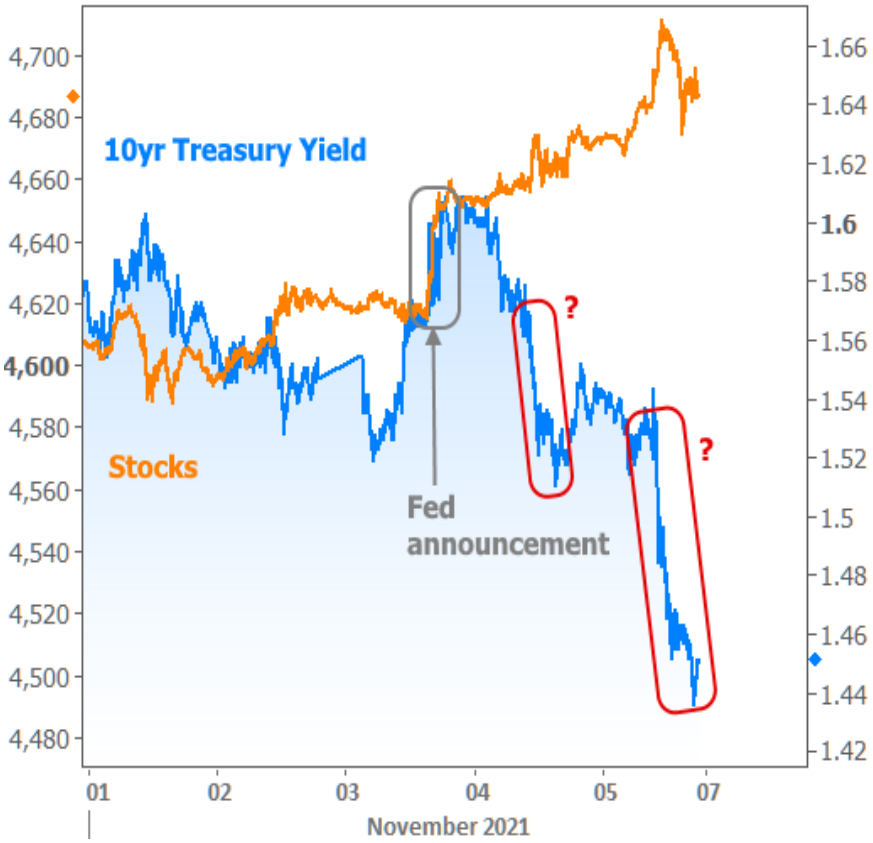



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Incidentally, the bond market's first reaction to this week's tapering announcement was also to move slightly higher in rate. The recovery didn't happen until the following day. So what caused that drop in yields? And how about the even more puzzling drop the next morning after the strong jobs report (both "drops" seen in the red highlighted areas below)?




These sorts of pops and drops rarely boil down to only one root cause. Some traders aren't even taking such timely events into consideration. But if we had to pick **only one** leading suspect--the unexpected catalyst for most of the other drama--it would be the Bank of England (BOE).

The BOE?! **Does that even matter** to rates in the US?

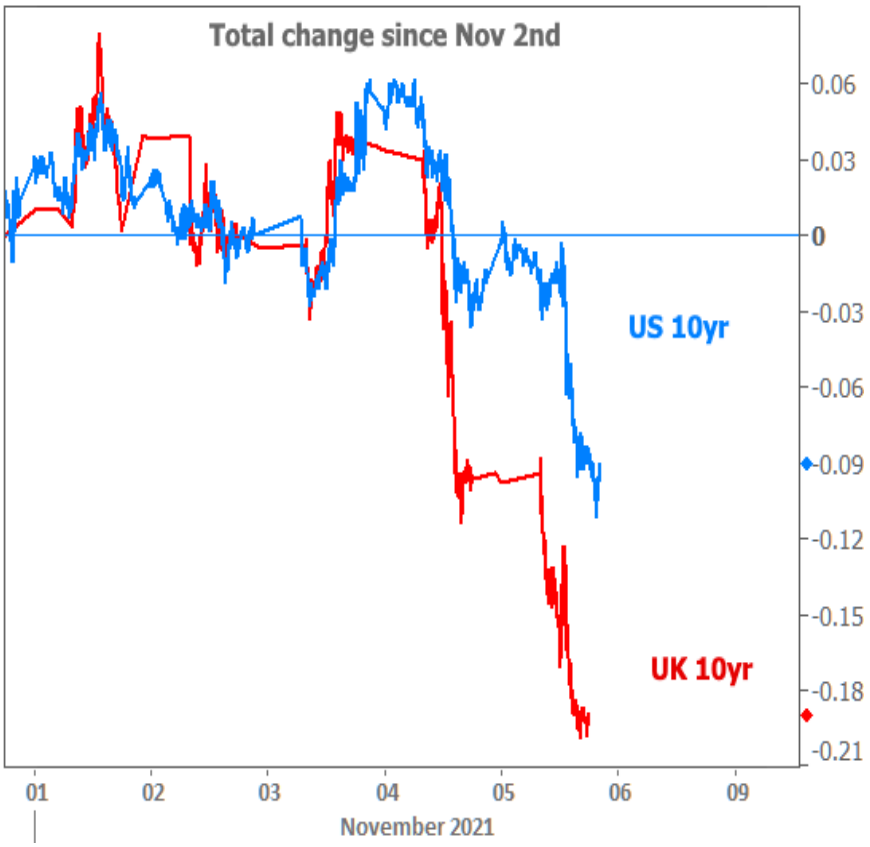
Yes, in fact there's a strong correlation between bond yields in the US and Europe. Each will take turns providing inspiration for the other. The correlations are especially noticeable when one of the major central banks sparks a big move in the respective country's sovereign debt yields.

In other words, if the BOE does something to make British bonds drop precipitously, that will almost always result in at least **some** downward pressure on US bond yields. With that in mind, let's look at another version of the chart above. This time, we'll examine the outright change in US 10yr yields since Tuesday, and compare that to the outright change in British 10yr yields.

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If anything, the US bond market was trying to **resist** the pull of the British bond market on Thursday. When the assault continued on Friday, it forced traders to close (or "cover") bets on higher yields (aka "short positions"). The result is known as a "short squeeze," and its momentum is only limited by the amount of short positions in the market (and there were a ton of them).

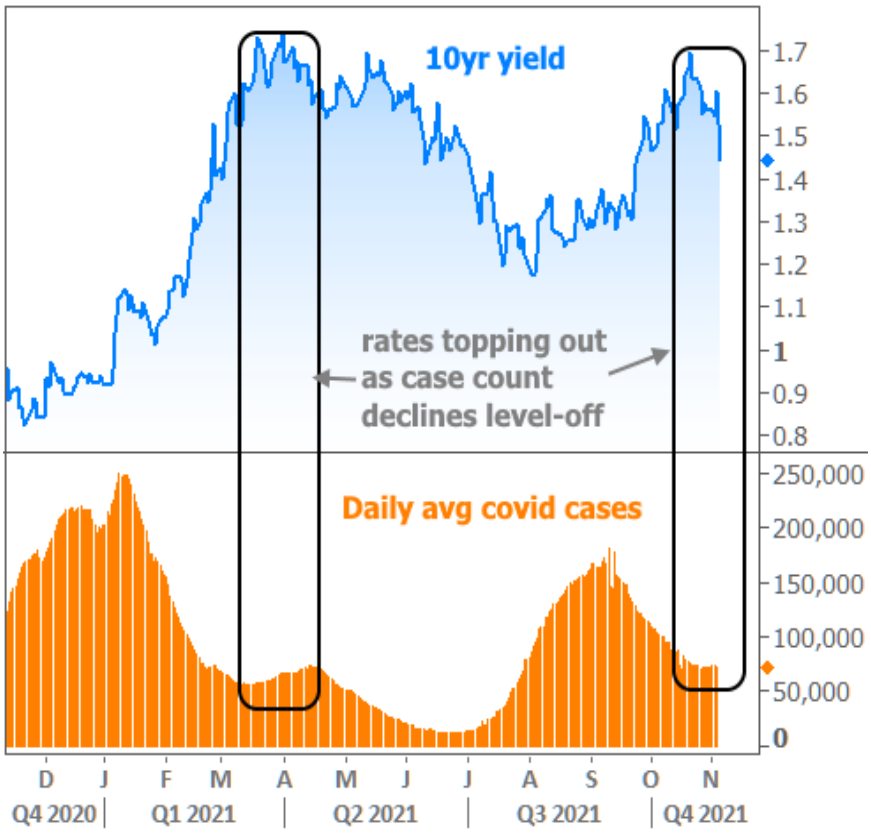
**Bottom line:** a surprisingly bond-friendly series of events in the UK spilled over to put downward pressure on US yields. US traders weren't prepared for yields to move as low as they did and thus were forced to capitulate by buying more bonds (which pushes yields even lower) in order to close their short positions. Lastly, if we had any doubts about the British inspiration, we can simply observe the red line dropping more than twice as much as the blue line since Tuesday.

In the much bigger picture, we can also keep an eye out for shifts in the relationship between covid and the market. To some extent, we're seeing a similar pattern play out to the one earlier in 2021 when case counts stopped declining and rates stopped rising.

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How did all of the above translate to mortgage rates? The bonds that underlie mortgage rates won't ever move as much as Treasuries when the key catalyst is overseas bond drama, but they still had a great week. Lenders were increasingly willing to pass along the bond market gains in the form of lower mortgage rates. By Friday afternoon, the average lender had shaved off around 0.125% from this week's 30yr fixed offerings.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Nov 01** | | | | |
| 10:00AM | Oct ISM Manufacturing PMI | 60.8 | 60.5 | 61.1 |
| **Wednesday, Nov 03** | | | | |
| 7:00AM | w/e MBA Purchase Index | 271.1 | | 275.6 |
| 7:00AM | w/e MBA Refi Index | 2645.0 | | 2763.8 |
| 8:15AM | Oct ADP National Employment (k) | 571 | 400 | 568 |
| 10:00AM | Sep Factory orders mm (%) | 0.2 | 0.0 | 1.2 |
| 10:00AM | Oct ISM N-Mfg PMI | 66.7 | 62.0 | 61.9 |
| 2:00PM | N/A FOMC rate decision (%) | 0 - 0.25 | 0.125 | 0.125 |
| 2:30PM | Powell Press Conference | | | |
| **Thursday, Nov 04** | | | | |
| 8:30AM | w/e Jobless Claims (k) | 269 | 275 | 281 |

## Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Friday, Nov 05** | | | | |
| 8:30AM | Oct Non-farm payrolls (k) | 531 | 450 | 194 |
| 8:30AM | Oct Unemployment rate mm (%) | 4.6 | 4.7 | 4.8 |
| **Monday, Nov 08** | | | | |
| 1:00PM | 3-Yr Note Auction (bl) | 56 | | |
| **Tuesday, Nov 09** | | | | |
| 8:30AM | Oct Core Producer Prices YY (%) | 6.8 | 6.8 | 6.8 |
| **Wednesday, Nov 10** | | | | |
| 8:30AM | Oct Core CPI (Annual) (%) | 4.6 | 4.3 | 4.0 |
| 8:30AM | Oct Consumer Price Index (CPI) (%) | 0.9 | 0.6 | 0.4 |
| 10:00AM | Sep Wholesale inventories mm (%) | 1.4 | 1.1 | 1.1 |
| **Friday, Nov 12** | | | | |
| 10:00AM | Nov Consumer Sentiment | 66.8 | 72.4 | 71.7 |
| **Wednesday, Jan 12** | | | | |
| 1:00PM | 10-yr Note Auction (bl) | 36 | | |
| **Thursday, Jan 13** | | | | |
| 1:00PM | 30-Yr Bond Auction (bl) | 22 | | |

## Welcome to Elite Mortgage!

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Our Unique Boutique Mortgage Experience combines elite licensed mortgage professionals, incomparable service, a full array of mortgage products with the most competitive rates in the industry. At Elite Mortgage you're a client, not a number!

We know that each customer has specific needs, so we strive to meet those specific needs with a wide array of products, investment tools, mortgages and best of all quality service and individual attention.

Today's technology is providing a more productive environment to work in. For example, through our website, you can submit a complete on-line, secure loan application or pre-qualify for a home loan. You may also evaluate your different financing options by using our interactive calculators and going over various mortgage scenarios.

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