



Jay Rodriguez

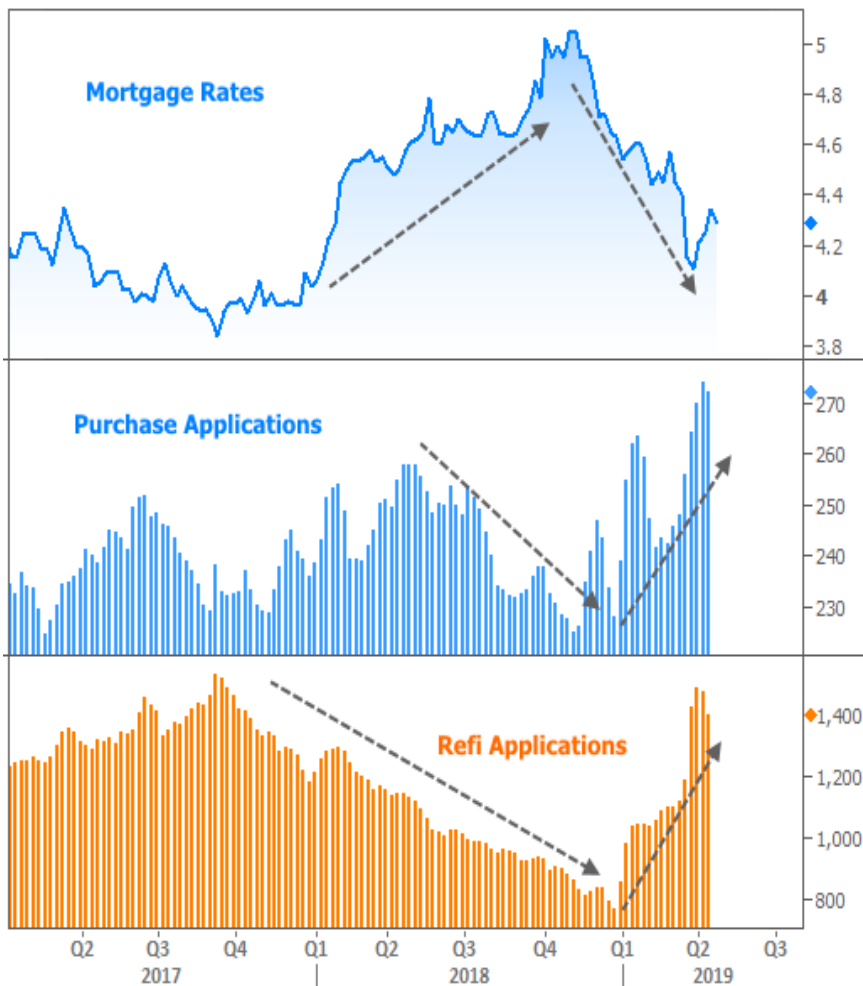
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Housing Market Gearing Up For a Big Week Ahead

To understand what's at stake in the week ahead, we need to understand where we are and where we've been. With that in mind, here's a **quick recap** of the past year or so in global macroeconomics.

Rates were near long-term highs in the first part of 2018 following the passage of the tax bill and generally strong economic data. As seen in the following charts, this took a toll on loan applications, home sales and eventually on **home values**.



National Average Mortgage Rates



| | Rate | Change | Points |
|--|------|--------|--------|
|--|------|--------|--------|

Mortgage News Daily

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.89% | 0.00 | 0.00 |
| 15 Yr. Fixed | 6.33% | +0.01 | 0.00 |
| 30 Yr. FHA | 6.33% | +0.01 | 0.00 |
| 30 Yr. Jumbo | 7.05% | 0.00 | 0.00 |
| 5/1 ARM | 6.58% | 0.00 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.77% | -0.09 | 0.00 |
| 15 Yr. Fixed | 6.05% | -0.11 | 0.00 |

Rates as of: 7/22

Market Data

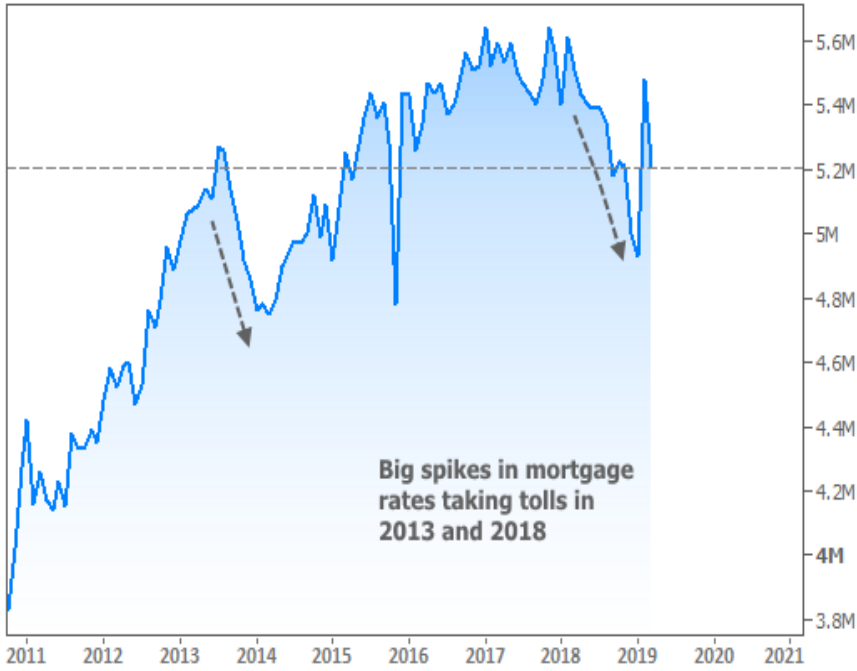
| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 5.5 | 99.39 | -0.01 |
| MBS GNMA 5.5 | 99.78 | +0.00 |
| 10 YR Treasury | 4.2393 | -0.0132 |
| 30 YR Treasury | 4.4594 | -0.0131 |

Pricing as of: 7/23 5:00AM EST

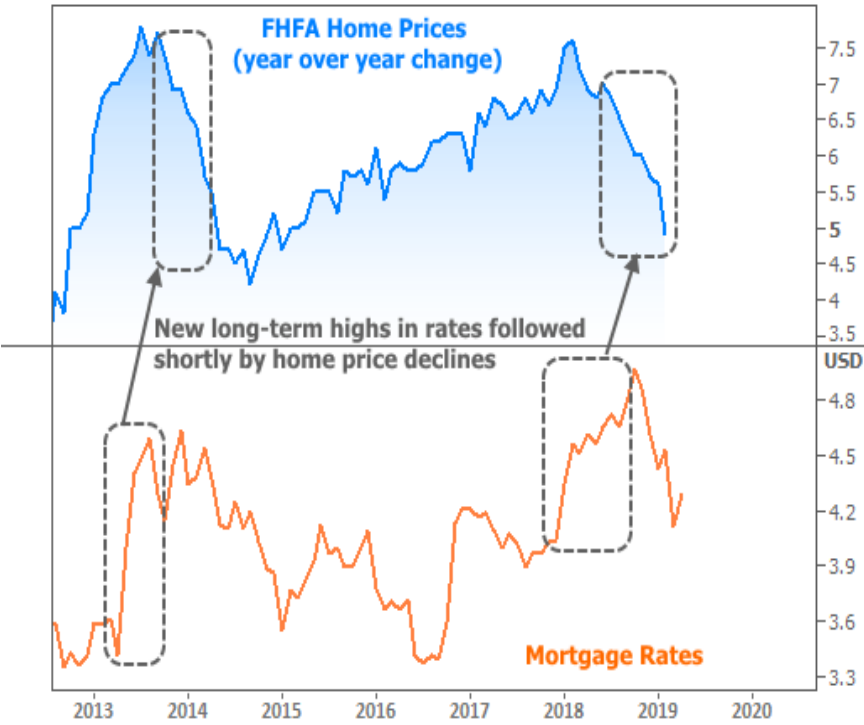
Recent Housing Data

| | | Value | Change |
|---------------------|--------|-------|---------|
| Mortgage Apps | Jul 10 | 206.1 | -0.19% |
| Building Permits | Mar | 1.46M | -3.95% |
| Housing Starts | Mar | 1.32M | -13.15% |
| New Home Sales | Mar | 693K | +4.68% |
| Pending Home Sales | Feb | 75.6 | +1.75% |
| Existing Home Sales | Feb | 3.97M | -0.75% |
| Builder Confidence | Mar | 51 | +6.25% |

Existing Home Sales

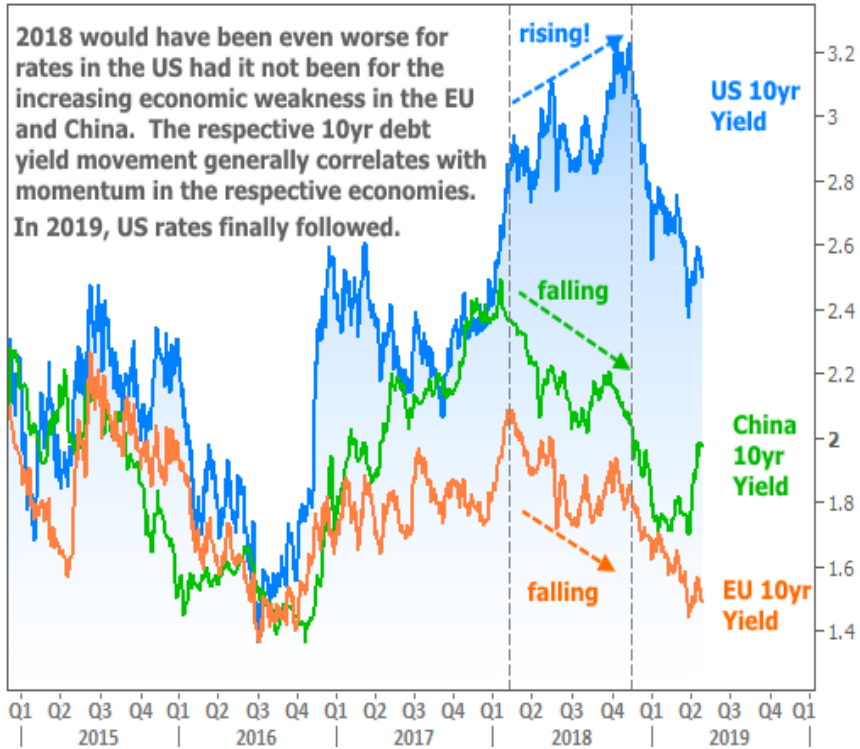


Rates vs Prices



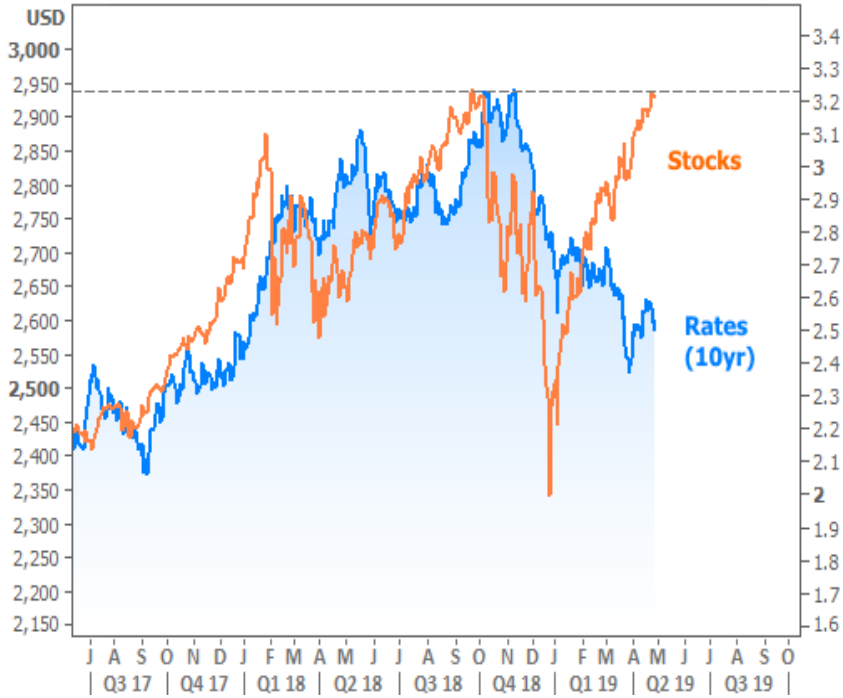
Rates surged to new long term highs in October and November due to ongoing improvement in US econ data among other things. At the same time, concerns were mounting about economic contractions in Europe and China. The following chart shows how debt yields (a proxy for economic momentum) were falling in those two economies while US yields were still rising.

US vs EU vs China



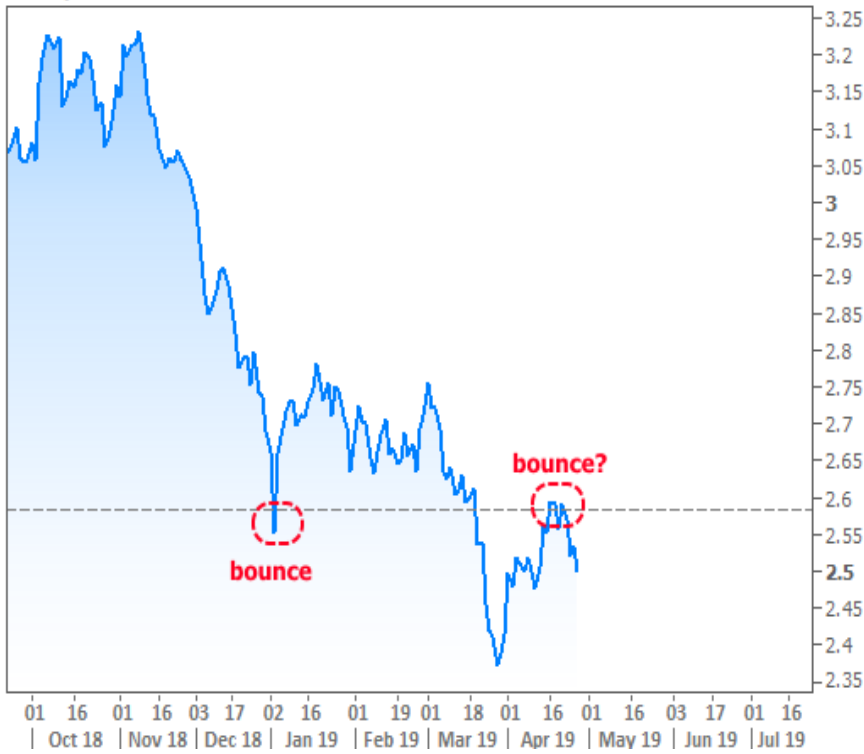
Eventually, the slump in foreign economies combined with a tough stance on rates from the Fed led US markets to follow suit. Stocks and rates **dropped abruptly** before the Fed stepped in and drastically softened its tone in January. That helped stocks recover and kept the good times rolling for rates (a softer tone from the Fed means rate hikes are less likely).

Rates vs Stocks



For several reasons, rates surged **even lower** by the end of March--so low that a correction was likely. It's **that** move higher in rates that we've been discussing for the past few weeks and it got even more interesting this week. Long story short, rates have been willing to recover a bit and hold their ground inside the new, lower range achieved in March. Until this week, it looked like they might be moving back into 2019's previous range.

US 10yr Yield



Throughout this volatile move, interest rates have been settling into a relationship with economic data. At times, it's been **too hot** (i.e. rates have been overly reactive) or **too cold** (i.e. rates haven't cared about some reports that normally matter). Recently, it's been **just right** (i.e. rates are paying close attention to the data, but the reactions have been tempered).

One reason for tempered reactions is that we haven't had a ton of important economic data in the past few weeks. But that all changes next week. Not only is the calendar packed on any given day, but the reports in question are typically the biggest market movers.

In and of itself, that would be enough reason to plan for potential volatility, but the data will also be joined by the Fed with a **new policy announcement** on Wednesday. Given how surprised markets were by the March 20th announcement, there's a decent chance of meaningful changes in next week's update.

Of course, the Fed **could** end up being interpreted as fairly neutral and the economic reports could be the right mix of stronger and weaker such that rates don't end up too far from current levels. But if the data is **unified** in its message, and **especially** if the Fed's message is in the same vein, it would likely result in the **biggest move in rates** in more than a month, for better (in the case of a friendly Fed and weak economic data) or worse (in the case of a hawkish Fed and strong data).

After Wednesday, all eyes will be Friday's big data combo with the jobs report 830am ET (Non-farm payrolls) and ISM's Non-Manufacturing index at 10am.

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Recent Economic Data

Event Importance:

| Date | Event | Actual | Forecast | Prior |
|--------------------------|----------------------------------|-------------|----------|--------|
| Monday, Apr 22 | | | | |
| 10:00AM | Mar Existing home sales (ml) | 5.21 | 5.30 | 5.51 |
| 10:00AM | Mar Exist. home sales % chg (%) | -4.9 | -3.8 | 11.8 |
| Tuesday, Apr 23 | | | | |
| 9:00AM | Feb Monthly Home Price yy (%) | 4.9 | | 5.6 |
| 9:00AM | Feb Monthly Home Price mm (%) | 0.3 | | 0.6 |
| 10:00AM | Mar New home sales-units mm (ml) | 0.692 | 0.650 | 0.667 |
| 10:00AM | Mar New home sales chg mm (%) | 4.5 | -2.5 | 4.9 |
| Wednesday, Apr 24 | | | | |
| 7:00AM | w/e Mortgage Refinance Index | 1293.0 | | 1453.0 |
| 7:00AM | w/e MBA Purchase Index | 269.3 | | 280.7 |
| Thursday, Apr 25 | | | | |
| 8:30AM | Mar Durable goods (%) | 2.7 | 0.8 | -1.6 |
| 8:30AM | w/e Jobless Claims (k) | 230 | 214 | 192 |
| Friday, Apr 26 | | | | |
| 8:30AM | Q1 GDP Advance (%) | 3.2 | 2.0 | 2.2 |
| 10:00AM | Apr Consumer Sentiment (ip) | 97.2 | 97.0 | 96.9 |
| Monday, Apr 29 | | | | |
| 8:30AM | Mar Core PCE Inflation (y/y) (%) | +1.6 | 1.7 | 1.7 |
| Tuesday, Apr 30 | | | | |
| 9:00AM | Feb CaseShiller 20 yy (%) | +3.0 | 3.2 | 3.6 |
| 9:45AM | Apr Chicago PMI | 52.6 | 59.0 | 58.7 |
| 10:00AM | Mar Pending Sales Index | 105.8 | | 101.9 |
| 10:00AM | Mar Pending Home Sales (%) | +3.8 | 1.1 | -1.0 |
| 10:00AM | Apr Consumer confidence | 129.2 | 126.0 | 124.1 |
| Wednesday, May 01 | | | | |
| 7:00AM | w/e Mortgage Refinance Index | 1228.3 | | 1293.0 |
| 7:00AM | w/e MBA Purchase Index | 259.4 | | 269.3 |
| 8:15AM | Apr ADP National Employment (k) | +275 | 180 | 129 |
| 10:00AM | Apr ISM Manufacturing PMI | 52.8 | 55.0 | 55.3 |
| 10:00AM | Mar Construction spending (%) | -0.9 | 0.1 | 1.0 |
| 2:00PM | N/A FOMC rate decision (%) | 2.25 - 2.50 | 2.375 | 2.375 |
| Thursday, May 02 | | | | |
| 8:30AM | Q1 Labor Costs Preliminary (%) | -0.9 | 1.5 | 2.0 |
| 8:30AM | Q1 Productivity Preliminary (%) | 3.6 | 2.2 | 1.9 |
| 8:30AM | w/e Jobless Claims (k) | 230 | 215 | 230 |
| 9:45AM | Apr ISM-New York index | 882.8 | | 869.1 |
| 10:00AM | Mar Factory orders mm (%) | +1.9 | 1.5 | -0.5 |
| Friday, May 03 | | | | |

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

| Date | Event | Actual | Forecast | Prior |
|---------|------------------------------|--------|----------|-------|
| 8:30AM | Apr Non-farm payrolls (k) | +263 | 185 | 196 |
| 8:30AM | Apr Unemployment rate mm (%) | 3.6 | 3.8 | 3.8 |
| 10:00AM | Apr ISM N-Mfg PMI | 55.5 | 57.0 | 56.1 |

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Jay Rodriguez

