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Fed Hikes, But Mortgage Rates Fall. Here's Why

Last week's newsletter made the case that this week's Fed rate hike was "**pointless**" because bond markets (and mortgage rates) had already fully adjusted for it. Instead, it would be the Fed's economic projections (their forecasts for future rate hikes) that would make or break this week's rate movement. That's exactly what happened.

Bond markets are always doing their best to adjust **today's** rates to match **future** expectations, based on a number of variables. One of the most important variables is the Fed rate hike outlook. All other things being equal, if bond markets see the Fed hiking the Fed Funds Rate sooner or faster, **other** rates (like mortgages and 10yr Treasury yields) will rise. Back in late February, the Fed embarked on a PR campaign to convince bond markets of precisely that.

A series of comments from various Fed speakers caused a **rapid** increase in rate hike expectations for the March meeting. In turn, this pushed 10yr yields and mortgage rates quickly higher in the first week of March. By that point, this week's Fed rate hike was **fully** accounted for.

In the 2nd week of March, the ADP Employment report **crushed** forecasts, showing job growth that was 50% faster than expected. ADP is one of several advance indicators for the all-important Employment Situation (the big "jobs report"). Markets quickly adjusted for the possibility that the Employment Situation would be similarly stellar. They concluded the Fed's rate hike **outlook** would accelerate (remember, that's a key ingredient for present day rates).

As such, it was **no surprise** to see 10yr yields and mortgage rates continue higher while March's Fed rate hike expectations held steady (after all, March expectations were essentially maxed-out).

But the Fed **surprised** markets by releasing a fairly **tame** set of economic projections. In fact, for the end of 2017 and 2018, the median rate expectation among Fed members turned out to be exactly the same as the last set of projections (in December), and the 2019 outlook rose by a meager 0.125%. Rates reacted decisively.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.33%	-0.12	0.00
15YR Fixed	6.89%	-0.10	0.00
30YR FHA	6.95%	-0.10	0.00
30YR Jumbo	7.44%	-0.06	0.00
7/6 SOFR	6.81%	-0.19	0.00
30YR VA	6.97%	-0.10	0.00

Rates as of: 11/20

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.51	+0.41
10 YR Treasury	4.9403	-0.1033
30 YR Treasury	5.3324	-0.0738

Pricing as of: 11/20 5:59PM EST

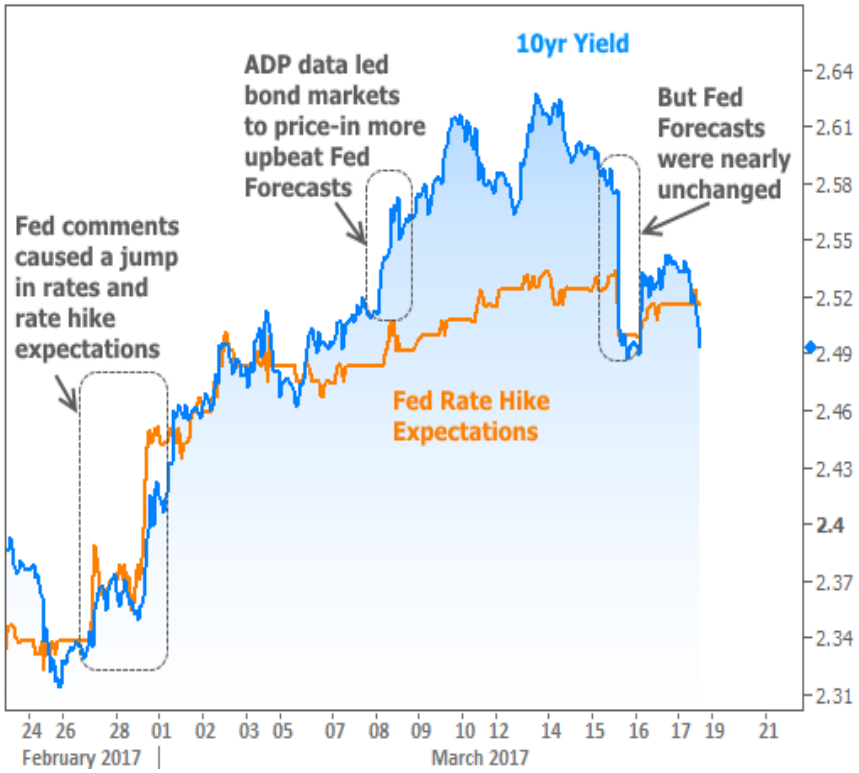
Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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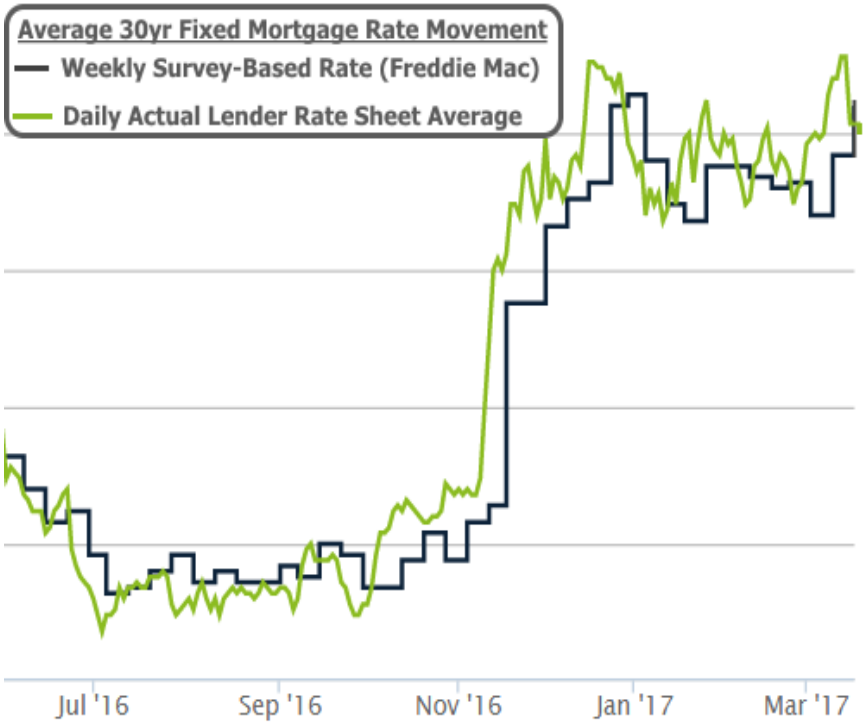
The bond market improvement translated to a **significant drop** in mortgage rates on Wednesday afternoon. Lenders were certainly defensive before that, and their collective sigh of relief was evident in the new rate sheets that came out late in the day and on Thursday morning.

Some news articles from Thursday and Friday will suggest that rates are at 2017 highs. While that **was** true on Wednesday morning, it's **no longer** the case. Those articles are relying on weekly survey data from Freddie Mac which only captures rate movement between Monday and Wednesday morning. Actual lender rate sheets show rates at 2-week lows. Freddie's numbers should reflect this next Thursday, barring significant volatility early next week.

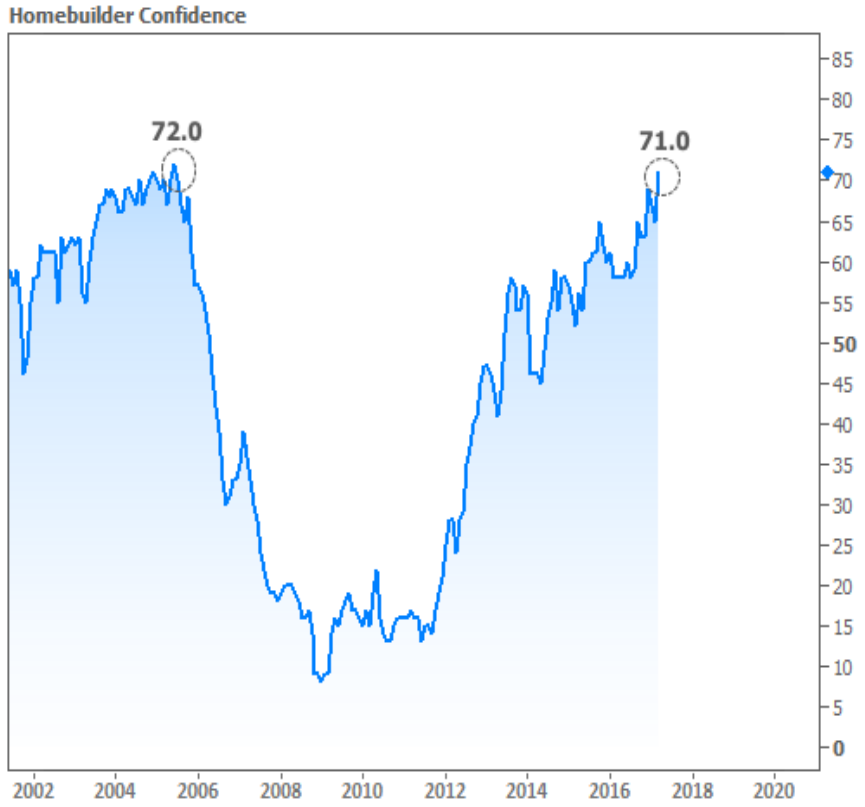
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Beyond the world of rates, there was **more good news** for the housing market this week. Several housing-related economic reports were strong. The NAHB reported that homebuilder confidence reached the highest levels in **more than 12 years**--nearly matching the best mark from the housing boom.



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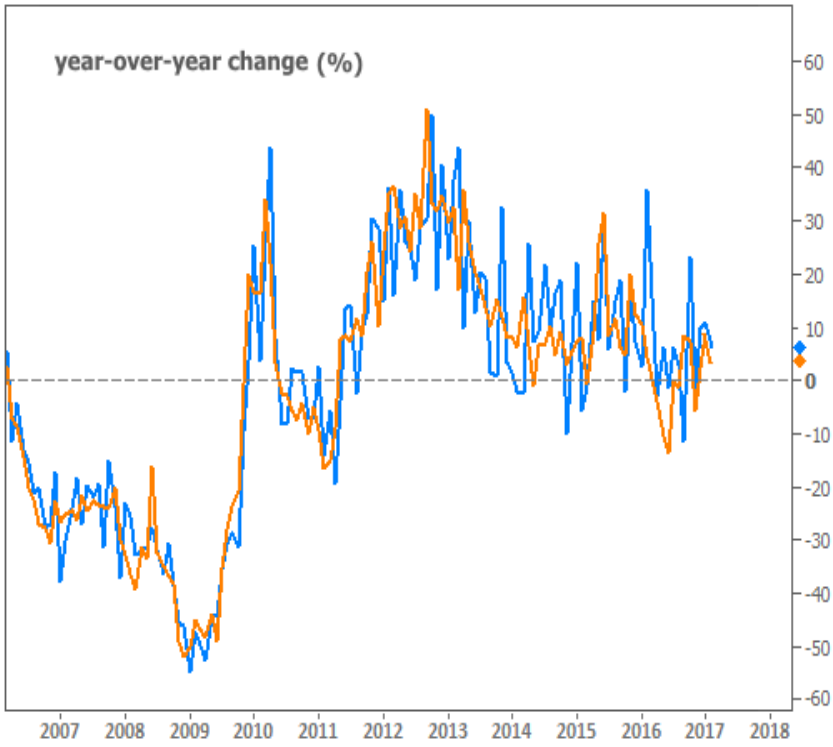
Residential construction numbers were also strong, according to The Census Bureau. **Housing Starts** (the first phase of construction) and **Building Permits** didn't match the grandeur of the builder confidence numbers, but they maintained healthy trends nonetheless. The following chart shows the outright level of Permits and Starts followed by the year-over-year change (which is remaining in positive territory after dipping below in 2016).

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Perhaps the **most important news of the week** for homeowners and prospective homebuyers is a series of credit scoring changes announced by the major credit bureaus. Civil judgments and tax liens will no longer appear on credit reports unless they were filed according to certain standards. Most judgments currently don't meet these standards and will therefore no longer appear on credit reports. This will make for immediate **credit score improvements**.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Mar 14				
8:30AM	Feb Producer Prices (%)	0.3	0.1	0.6
8:30AM	Feb Core Producer Prices YY (%)	1.5	1.5	1.2
Wednesday, Mar 15				
7:00AM	w/e Mortgage Market Index	418.1		405.7
7:00AM	w/e Mortgage Refinance Index	1413.3		1357.6
7:00AM	w/e MBA Purchase Index	240.3		235.0
8:30AM	Feb Retail sales mm (%)	0.1	0.1	0.4
8:30AM	Feb Core CPI Year/Year (%)	+2.2	2.2	2.3
8:30AM	Feb CPI mm, sa (%)	+0.1	0.0	0.6
2:00PM	N/A FOMC rate decision (%)	0.75-1.00	0.875	0.625
Thursday, Mar 16				
8:30AM	Feb Housing starts number mm (ml)	1.288	1.260	1.246
8:30AM	Feb Building permits: number (ml)	1.213	1.260	1.293
8:30AM	Mar Philly Fed Business Index	32.8	30.0	43.3
8:30AM	w/e Initial Jobless Claims (k)	241	240	243
Friday, Mar 17				
9:15AM	Feb Industrial Production (%)	0.0	0.2	-0.3
9:15AM	Feb Capacity Utilization (%)	75.4	75.5	75.3
10:00AM	Feb Leading index chg mm (%)	0.6	0.4	0.6
10:00AM	Mar Consumer Sentiment Prelim	97.6	97.0	95.7
Wednesday, Mar 22				
7:00AM	w/e Mortgage Market Index	406.8		418.1
9:00AM	Jan Monthly Home Price mm (%)	0.0		0.4
10:00AM	Feb Existing home sales (ml)	5.48	5.57	5.69
Thursday, Mar 23				
10:00AM	Feb New home sales-units mm (ml)	0.592	0.565	0.555
Friday, Mar 24				
8:30AM	Feb Durable goods (%)	+1.7	1.2	2.0

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Thursday, May 18				
1:00PM	10-yr TIPS Auction (bl)	11		

Lending Done Right

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Jeff Statz 

EQUAL HOUSING OPPORTUNITY

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