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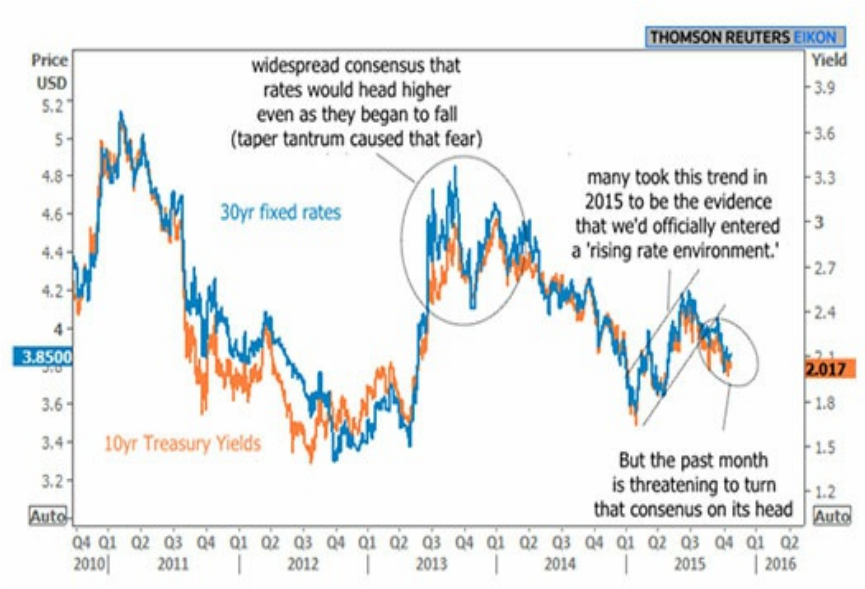
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Housing Remains a Bright Spot as Rates Defy Consensus

2015 was **supposed to be the year of rising rates**. Even as recently as this past week, several articles mentioned a high level of consensus about rates moving higher. The problem being is that this has been the consensus since the middle of **2013**!

The **failure of this consensus** is due to the general paradigm about how low rates SHOULD be. As you've likely been told in a number of clever ways, "should" can be a dangerous word. Almost everyone thought rates SHOULD have moved higher even after the **taper tantrum** in mid-2013. And now we're hearing the same sort of consensus about how rates SHOULD move higher in 2015.



It's seen as some sort of **reckless notion** that 10yr yields could stay near or below 2% or that mortgage rates could be in the 3's. Such rates are still widely associated with the wilder times that prevailed from 2011 through the middle of 2013. The paradigm is that they're no longer justified because the Fed is not buying bonds anymore and is furthermore considering raising its policy rate.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.71	+0.01
10 YR Treasury	5.1266	-0.0076
30 YR Treasury	5.4731	-0.0027

Pricing as of: 11/16 7:20PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
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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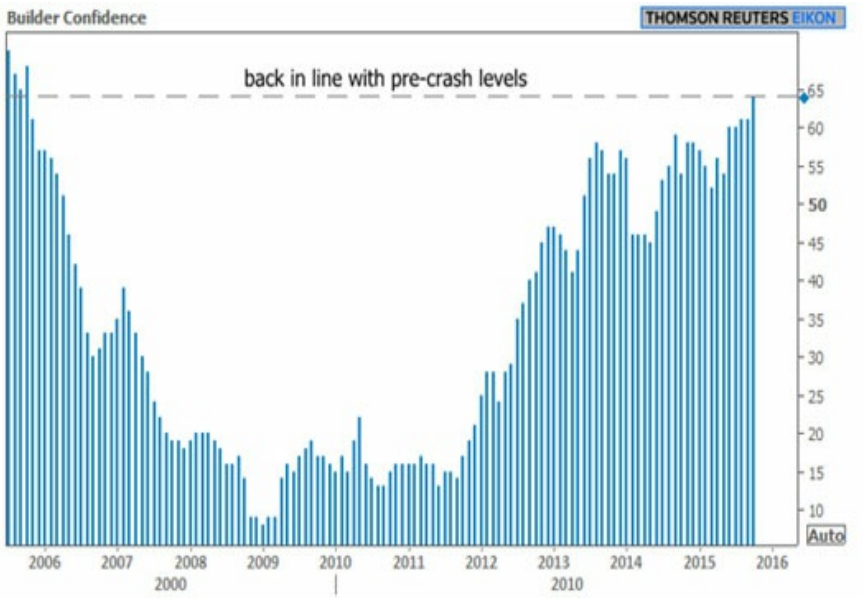
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Unfortunately for the "shoulda's," rates will **always be determined** by the supply and demand in bond markets. Supply is a non-issue most of the time. Demand is the component that's tripping people up. It's created by a number of things, but the **three biggest drivers** are inflation expectations, the economic outlook, and central bank buying programs.

As we know, the tapering of central bank buying took a toll on rates, but it didn't change the other two considerations. While the economy has improved in many ways, it has a few key issues that continue to support lower rates. The biggest issue is the utter lack of inflation. While the Fed reckons that inflation will pick back up if oil prices rise, they don't seem overly confident about that, as evidenced by their ongoing **refusal** to do anything but TALK about raising rates.

The reality (and the second key issue) is that there is simply a growing concern about the level of global economic growth. Interest rates will generally follow the trends in growth, which is why rates have fallen over the past 3 months as overseas concerns have increased. Even some of the domestic economic data has taken a turn for the worse recently. **Housing data** is one of the most notable exceptions.

This week has been housing-heavy in terms of data, with **Builder Confidence** leading the charge. The **NAHB Housing Market Index** officially re-entered territory not seen since before the housing crisis began.

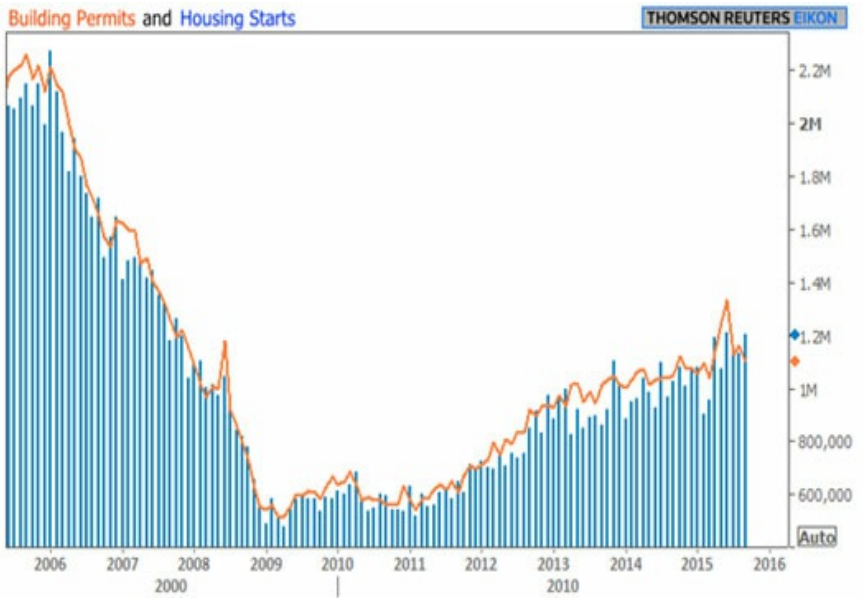


The rest of the week's housing data can't quite make the same lofty claims, but it's by no means been depressing. Housing Starts may not be back at late 2005 levels, but they're nonetheless pushing their **post-crisis highs** (the caveat is that **Multi-Family construction** played a major role).

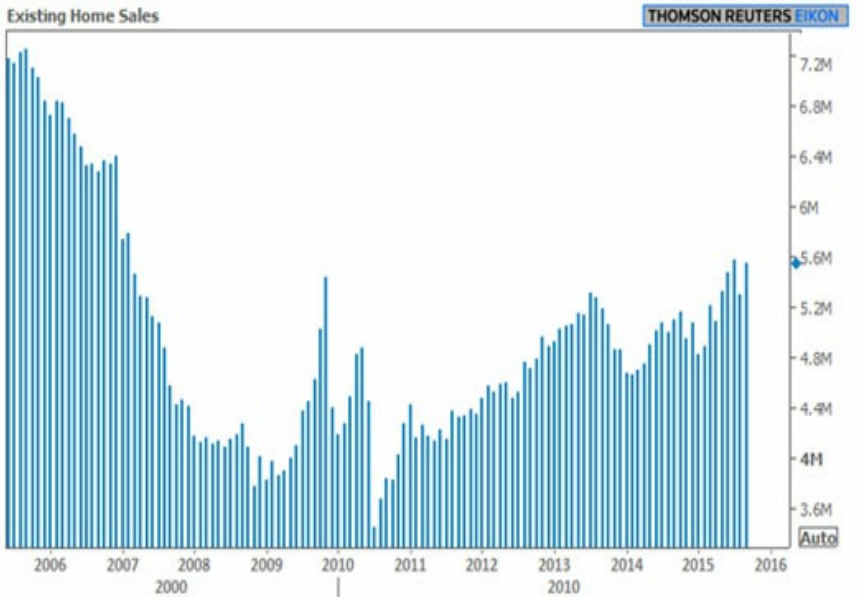
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Finally, **Existing Home Sales rose** to an annual pace of 5.55 million units versus a median forecast of 5.38 mln and a previous reading of 5.30mln.



The upcoming week brings the much-anticipated **October FOMC Announcement**. There is absolutely no chance that the Fed raises rates at this meeting, but there is still some small chance that they hike in December. If they're actively considering that, we could expect the October Announcement to hold some clues. This could make for significant market volatility on Wednesday afternoon and into Thursday.

Regardless of the Fed Announcement, keep in mind that rates can always move higher or lower, and sometimes they move higher simply because they've had their fill of moving lower for the time being. So for those with shorter-term time horizons, it can often make sense to look for opportunities to lock when **rates are at multi-month lows**.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Oct 19				
10:00AM	Oct NAHB housing market indx	64	62	62
Tuesday, Oct 20				
8:30AM	Sep Build permits: change mm (%)	-5.0		2.7
8:30AM	Sep Building permits: number (ml)	1.103	1.164	1.161
8:30AM	Sep Housing starts number mm (ml)	1.206	1.150	1.126
Wednesday, Oct 21				
7:00AM	w/e Mortgage Refinance Index	1774.7		1631.4
7:00AM	w/e MBA Purchase Index	197.4		169.6
Thursday, Oct 22				
8:30AM	w/e Jobless claims 4-wk avg (k)	263.25		265.00
8:30AM	w/e Continued jobless claims (ml)	2.170	2.160	2.158
8:30AM	w/e Initial Jobless Claims (k)	259	263	255
10:00AM	Sep Exist. home sales % chg (%)	+4.7	1.4	-4.8
10:00AM	Sep Existing home sales (ml)	5.55	5.38	5.31
Monday, Oct 26				
10:00AM	Sep New home sales chg mm (%)	-11.5	-0.4	5.7
10:00AM	Sep New home sales-units mm (ml)	0.468	0.550	0.552
Tuesday, Oct 27				
8:30AM	Sep Nondefense ex-air (%)	-0.3	0.0	-0.8
8:30AM	Sep Durable goods (%)	-1.2	-1.2	-2.3
9:00AM	Aug CaseShiller 20 yy (%)	+5.1	5.1	5.0
9:00AM	Aug CaseShiller 20 mm nsa (%)	+0.4	0.3	0.6
9:00AM	Aug CaseShiller 20 mm SA (%)	+0.1	0.1	-0.2
10:00AM	Oct Consumer confidence	97.6	103.0	103.0
Wednesday, Oct 28				
1:00PM	5-Yr Note Auction (bl)	35		
2:00PM	N/A FOMC rate decision (%)	0-0.25	0.125	0.125
Thursday, Oct 29				
10:00AM	Sep Pending homes index	106.8		109.4
10:00AM	Sep Pending sales change mm (%)	-2.3	1.0	-1.4
1:00PM	7-Yr Note Auction (bl)	29		
Friday, Oct 30				
8:30AM	Sep PCE price index mm (%)	-0.1		0.0
8:30AM	Sep Core PCE price index mm (%)	+0.1	0.2	0.1
8:30AM	Sep PCE price index yy (%)	+0.2		0.3
8:30AM	Sep Consumption, adjusted mm (%)	+0.1	0.2	0.4

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	Sep Personal consump real mm (%)	+0.2		0.4
9:45AM	Oct Chicago PMI	56.2	49.0	48.7
10:00AM	Oct U Mich Sentiment Final (ip)	90	92.5	92.1
Wednesday, Dec 23				
11:30AM	2-Yr Note Auction (bl)	13		

Responsive service, experienced expertise

I've dedicated my 26 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

Ted Rood

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