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Why Mortgage Rates Are Defying The Data

Spend even a small amount of time following mortgage rates and you can't help but come across the following conventional wisdom: **mortgage rate movement is closely tied to economic data**.

"Economic data" is a somewhat ambiguous term, but in this context, it refers to the scheduled economic reports that are released by various government and private agencies. For example, we're talking about things like GDP (Gross Domestic Product), New Home Sales, and NFP (Nonfarm Payrolls).

Over time, **it is true** that weaker economic data tends to coincide with lower interest rates. Even on shorter time scales, a report like NFP (the most important piece of economic data month in and month out) almost always has a significant impact on interest rates on the first Friday of each month.

It would normally be **alarming**, then, to see an NFP like this week's. It came in at a tremendously strong 292k jobs compared to a median forecast of 200k. That sort of performance normally kills mortgage rates, but instead, rates are at the **lowest levels in a month**! What's up with that?

First of all, financial markets can always move for non-economic reasons, and they tend to do more of this at the beginning and end of any given year. Some of the paradoxical movement could indeed be due to that phenomenon, but there's definitely **an elephant in the room**: global stock markets. Led by anxiety over an increasingly disconcerting situation in Chinese markets and the Chinese economy, global stock prices are off to a horrible start in 2016.

This, of course, coincides with the Fed hiking rates just last month as US stocks failed to make it back to 2015's highs. You may have come across the "punch-bowl" analogy for Fed policy (i.e. accommodative policy has been keeping the party going for financial markets). With China-related anxiety happening at the same time that the Fed is moving the proverbial punch bowl off the table, some investors worry that there could be **even more pain** in store for stocks. In simpler terms, they're worried this could be the big turning point for the multi-year rally.

While that's bad news for 401k balances, it's **good news for mortgage rates**. In a world where the Fed hike was widely seen as putting gradual upward pressure on rates, the money flying out of equities markets **needs a place to go**. Some of it has been making its way into bond markets, including those that underlie mortgage rates. As money floods in, prices of mortgage-backed-securities (MBS) rise, and rates fall. Because of this phenomenon—this global flight of capital toward safer havens—mortgage rates have managed to fall

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%

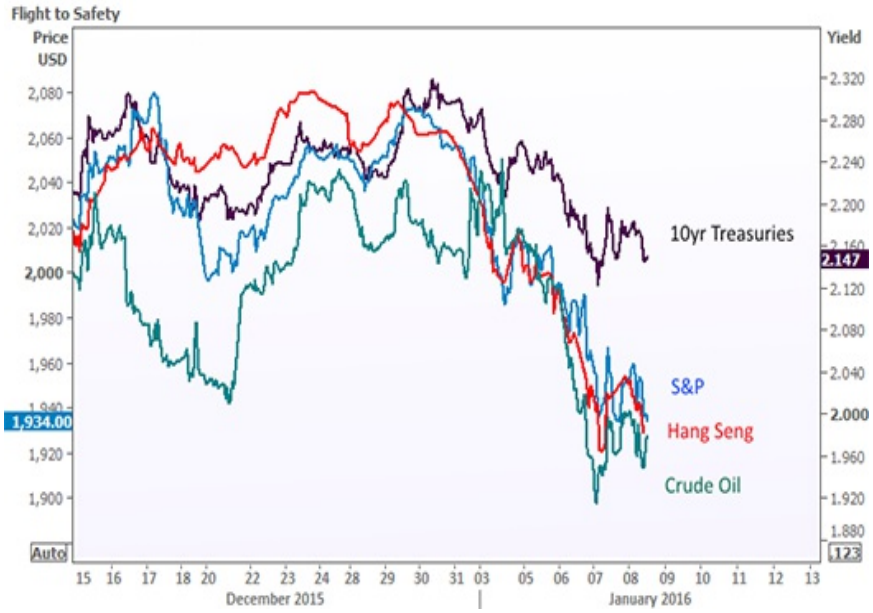
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despite several pieces of strong economic data this week.

The question, of course, is **how long this will last**. Considering the fact that we're operating in uncharted territory in terms of Fed rate hike cycles (no precedent for a lift-off from zero!), it doesn't make much sense to guess. While there are conceivable scenarios where rates could continue to fall, we've seen similar pockets of opportunity in the past that have proven to be short-lived. We can already see that rates (represented in this chart by the 10yr Treasury yield that closely tracks mortgage rates) have **not** been as eager to follow the flight of capital in riskier assets. Plan accordingly:



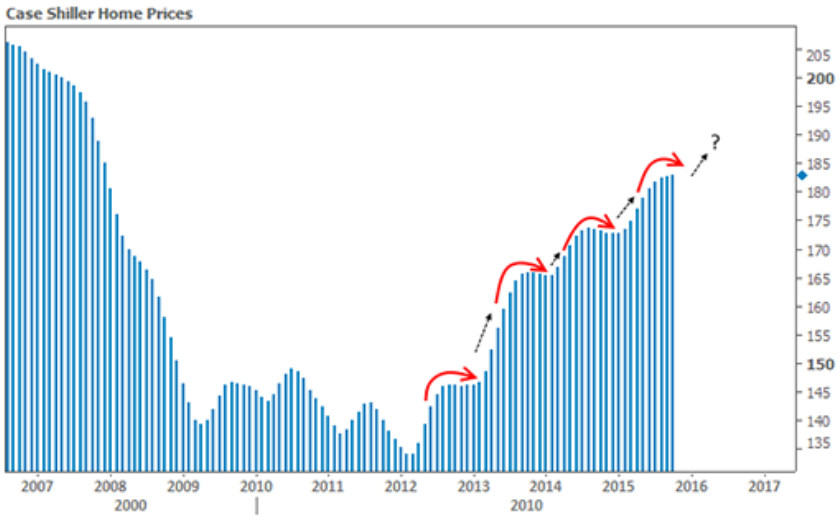
Housing-specific news has been fairly light this week with the biggest headlines pertaining to the home price indices. Black Knight noted that while the nation, as a whole, continued to appreciate, California had taken a turn for the worse. CoreLogic was more upbeat than its peers on prices, seeing annual appreciation of 6.3 percent.

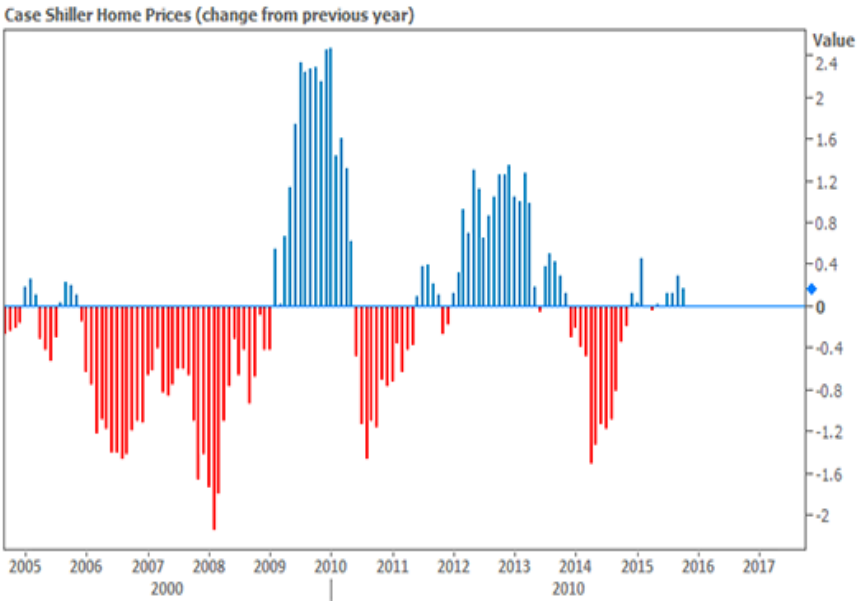
Trying to make sense of home price fluctuations in the middle of winter is tricky business because of the natural retreat in prices that happens **almost like clockwork**. It's too soon to tell if this cycle (seen in the 1st Case Shiller chart below) will repeat itself yet again in 2016, but it is clear that the pace of improvements is leveling-off (seen in the 2nd chart of year-over-year change).

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jan 04				
10:00AM	Nov Construction spending (%)	-0.4	0.6	1.0
10:00AM	Dec ISM Manufacturing PMI	48.2	49.0	48.6
Tuesday, Jan 05				
9:45AM	Dec ISM-New York index	716.6		710.6
Wednesday, Jan 06				
7:00AM	w/e Mortgage Refinance Index	1114.8		1272.9
7:00AM	w/e MBA Purchase Index	196.2		220.8
8:15AM	Dec ADP National Employment (k)	257.0	192	217

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Thursday, Jan 07				
8:30AM	w/e Initial Jobless Claims (k)	277	275	287
8:30AM	w/e Continued jobless claims (ml)	2.230	2.218	2.198
Friday, Jan 08				
8:30AM	Dec Non-farm payrolls (k)	+292	200	211
8:30AM	Dec Unemployment rate mm (%)	5.0	5.0	5.0
Wednesday, Jan 13				
1:00PM	10-yr Note Auction (bl)	21		
Thursday, Jan 14				
8:30AM	Dec Import prices mm (%)	-1.2	-1.4	-0.4
8:30AM	Dec Export prices mm (%)	-1.1	-0.5	-0.6
1:00PM	30-Yr Bond Auction (bl)	13		
Friday, Jan 15				
8:30AM	Jan NY Fed manufacturing	-19.37	-4.00	-4.59
8:30AM	Dec Retail sales mm (%)	-0.1	0.0	0.2
Wednesday, Apr 05				
2:00PM	FOMC Minutes			

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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