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Have We Already Seen The Big Bounce?

Rates have enjoyed unprecedented stability near all-time lows following Brexit (UK's vote to leave the EU) in late June. Mortgage rates are still reasonably close to those lows, but other metrics suggest we **may have already seen** the big bounce.

Whenever we look at mortgage rates, the quintessential "other metric" is the US Treasury market--chiefly, 10yr yields. The term "yield" is interchangeable with "rates," and the **10yr is top dog** when it comes to observing trends in longer term domestic interest rates (like mortgages).

Treasuries tend to move **more quickly** than the bonds that underlie mortgage rates, especially when global markets are more volatile. If you missed it, I covered this in greater detail in last week's newsletter.

Right now, mortgage rates aren't flashing too much of a warning sign about broader trends. But the same **can't** necessarily be said for Treasuries. One way we identify **warning signs** is by looking for "key levels" that have demonstrated some repetitive behavior in the past. This type of analysis works for anything you can put on a chart, by the way!

In the following chart, the key levels surround 1.53% in 10yr yields. You might also run into terms like "pivot" or "inflection point." In all cases, we're looking for places were rates have been more likely to **BOUNCE** as opposed to **BREAK**. The chart clearly shows that the immediate wake of the Brexit vote was the only break below 1.53 we've had in a long time.

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 7:21PM 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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Of course, when it comes to financial markets, repetitions of past patterns won't always predict the future. However, repetition does build a case for a certain level being significant. **It's as simple as this:** if rates hardly ever break through a given level, it's easier to argue that it means something when they do.

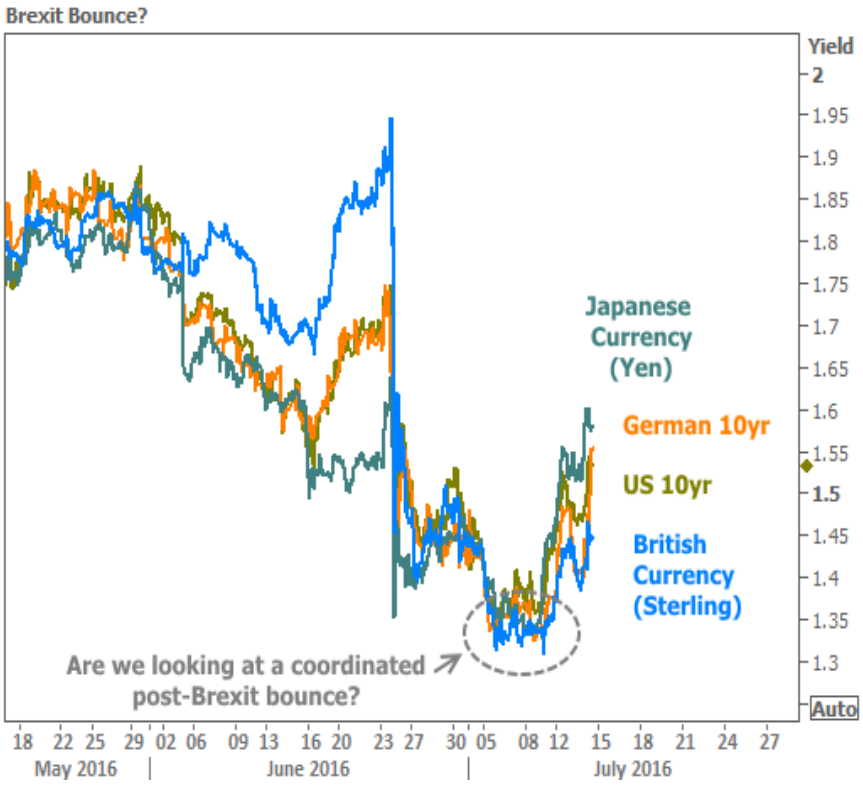
The more repetition we see, the stronger the case for significance becomes. The fact that rates had **previously** attacked these levels all the way back in February and most recently have treated them as a "ceiling" on several occasions, means investors are increasingly eyeing 1.53%.

We can continue **building a case** for significance by observing coincident indicators. In the next chart, we see German 10yr yields (a proxy for "European rates"), British currency (indicator of Brexit-related volatility), and Japanese currency, all overlaid against US 10yr Treasury yields. All of these speak to the possibility that the worst of the post-Brexit panic has subsided.

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Were this trend to continue, it would be a forceful argument in favor of mortgage rates having seen long-term lows in early July. As of right now, we **still haven't seen enough** of a move in global financial markets to confirm that big players are running back to the other side of the proverbial playing field--just enough to get the fans on their feet, in anticipation of that possibility.

What does all this mean for you? Not too much at this very moment, but it **COULD** soon mean that rates will keep heading higher in the short term. To be clear, there is **not** much belief out there in any dire scenarios for rates in the long-term. But even those calling for rates to hit new all-time lows in the future know there will be periodic corrections along the way. Recent market movements mean risks are elevated that we're on the brink of one of those corrections.

In **housing-specific news**, the Mortgage Bankers Association (MBA) was a prolific contributor. Their first report of the week noted that mortgage **credit availability tightened** in June, with all four of its MCAI component indices moving lower.

In a separate news release, the MBA noted the lingering effects of last week's low rates in the form of another surge in refinance applications. Purchase apps remain troublingly stagnant.

Finally, the MBA released information from its builder survey, resulting in an estimated **0.2 percent decrease** in new home sales.

Moving on to other data, **foreclosure inventory** is back to 1 percent, according to CoreLogic. The firm based this assessment on the fact that only 390k homes (which is 1% of total homes with mortgages) were in some stage of foreclosure in May.

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Recent Economic Data

Event Importance:

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Date	Event	Actual	Forecast	Prior
Monday, Jul 11				
1:00PM	3-Yr Note Auction (bl)	24		
Tuesday, Jul 12				
10:00AM	May Wholesale inventories mm (%)	+0.1	0.2	0.6
1:00PM	10-yr Note Auction (bl)	20		
Wednesday, Jul 13				
7:00AM	w/e Mortgage Market Index	622.4		580.8
8:30AM	Jun Export prices mm (%)	+0.8	0.4	1.1
8:30AM	Jun Import prices mm (%)	+0.2	0.5	1.4
1:00PM	30-Yr Bond Auction (bl)	12		
Thursday, Jul 14				
8:30AM	Jun U PPI exFood/Energy MM (%)	+0.4	0.1	0.3
8:30AM	Jun U PPI exFood/Energy YY (%)	+1.3	1.0	1.2
8:30AM	w/e Initial Jobless Claims (k)	254	265	254
Friday, Jul 15				
8:30AM	Jun CPI mm, sa (%)	+0.2	0.3	0.2
8:30AM	Jun Core CPI yy, nsa (%)	+2.3	2.3	2.2
8:30AM	Jun Retail sales mm (%)	0.6	0.1	0.5
10:00AM	May Business inventories mm (%)	+0.2	0.1	0.1
Monday, Jul 18				
10:00AM	Jul NAHB housing market indx	59	60	60
Tuesday, Jul 19				
8:30AM	Jun Housing starts number mm (ml)	1.189	1.170	1.164
8:30AM	Jun Building permits: number (ml)	1.153	1.150	1.136
Thursday, Jul 21				
8:30AM	Jul Philly Fed Business Index	-2.9	5.0	4.7
10:00AM	Jun Existing home sales (ml)	5.57	5.48	5.53

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

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.

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