THE FEDERAL SAVINGS BANK
Co. NMLS# 411500
Member FDIC

Ted Rood
Branch Manager, Gen Way Home Mortgage
NMLS #543290
O Fallon, Missouri 63368

Office: 3147400004
Mobile: 314-740-0004
ted_rood@yahoo.com

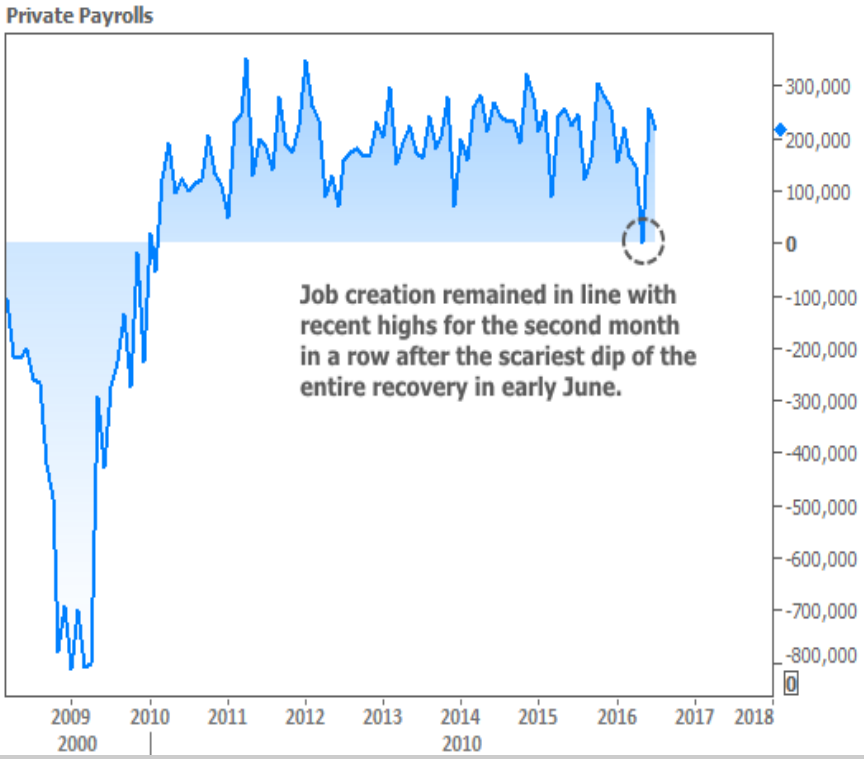
Strong Jobs Data Complicates Rate Outlook

The month of July saw rates bounce up from **all-time lows** immediately following a strong jobs report. Rates managed to hold sideways during the 2nd half of July as investors waited for announcements from central banks, among other things.

Whether we're talking about the mighty Federal Reserve, the Bank of Japan, or the Bank of England, central banks around the world have a **major effect** on financial markets. Interest rates weathered the storm of central bank announcements quite well, avoiding a break above those 'sideways' levels from July.

But the policy statement from the Federal Reserve **left the door open** for economic data to influence the rate hike outlook over the next few months. In other words, if certain key pieces of data came out stronger than expected, the Fed would be increasingly likely to hike rates.

That's exactly what happened with this week's jobs report. It was an **important victory** for labor markets because it confirmed a bounce back from the scariest slide in job creation of the entire recovery (seen in the June 3rd jobs report).



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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Unfortunately, the bigger the victory, the **greater the effect** on the Fed rate hike outlook. Although the Fed Funds Rate doesn't directly control mortgage rates, when expectations increase for a Fed rate hike, longer-term rates (like mortgages and 10yr Treasury yields) tend to increase as well. That's what happened in early July and that's what's happening again at the end of this week.

Following Friday's jobs report, the probabilities for a Fed rate hike in September **doubled**, albeit only from 9 to 18 percent. The December likelihood leapt 10 percentage points to just under 40 percent. Treasuries and mortgage rates increased quickly, leaving us to wonder if this is just the beginning of a more serious push back against July's all-time lows.

The following chart shows how rates were initially coaxed out of 2016's consolidative trend by the weak jobs report in June, as well as Brexit. From there, you can see how the strong jobs data in early July began the push back against the lows.



Now that we have a 2nd consecutive jobs report coming in so strong, the question is: will the **upward momentum in rates** be that much stronger? In considering that possibility, it will be useful to keep an eye on the low 1.6% range in 10yr Treasury yields, as that has been an important ceiling recently. When rates continually bounce against such ceilings, it's the market's way of letting us know it would be important if the ceiling ends up being broken.

Housing-Specific Data

Black Knight discussed the **"Brexit Effect"** on refinance demand. It should be fairly clear from this week's charts that Brexit juiced rates, resulting in a logical spike in refi demand. No major news there, if you've been reading my newsletters.

Slightly more newsworthy is the ongoing cooling in home price appreciation reported by CoreLogic. This **doesn't** mean prices are falling--simply that they're rising at a slower pace. This trend of deceleration is more than 6 months old now.

In a similar vein, CoreLogic also reported on rental price trends. This has been a more bulletproof sector than home prices in terms of upward trends, but now CoreLogic is **calling the peak** in rent price appreciation.

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Surprising some analysts, Freddie Mac announced **bigger-than-expected profits**, unequivocally avoiding the need for any taxpayer assistance. As always, keep in mind that even if Freddie did require a draw from Treasury that it has already more than paid back the amount it borrowed from taxpayers. It is only in a position to need a draw because the government takes all the excess profit from the GSEs under the conservatorship agreement.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Aug 01				
10:00AM	Jul ISM Manufacturing PMI	52.6	53.0	53.2
10:00AM	Jun Construction spending (%)	-0.6	0.5	-0.8
Tuesday, Aug 02				
8:30AM	Jun Personal consump real mm (%)	+0.3		0.3
8:30AM	Jun Consumption, adjusted mm (%)	+0.4	0.3	0.4
9:45AM	Jul ISM-New York index	721.1		715.8
Wednesday, Aug 03				
7:00AM	w/e Mortgage Market Index	526.8		545.8
8:15AM	Jul ADP National Employment (k)	179.0	170	172
10:00AM	Jul ISM N-Mfg PMI	55.5	56.0	56.5
10:00AM	Jul ISM N-Mfg Bus Act	59.3	59.5	59.5
Thursday, Aug 04				
8:30AM	w/e Initial Jobless Claims (k)	269	265	266
10:00AM	Jun Factory orders mm (%)	-1.5	-1.8	-1.0
Friday, Aug 05				
8:30AM	Jul Non-farm payrolls (k)	+255	180	287
8:30AM	Jul Private Payrolls (k)	+217	170	265
8:30AM	Jul Unemployment rate mm (%)	4.9	4.8	4.9
8:30AM	Jun International trade mm $ (bl)	-44.51	-43.1	-41.1
Tuesday, Aug 09				
10:00AM	Jun Wholesale inventories mm (%)	+0.3	0.0	0.0
1:00PM	3-Yr Note Auction (bl)	24		
Wednesday, Aug 10				
12:00AM	Roll Date - Fannie Mae 30YR, Freddie Mac 30YR			
7:00AM	w/e Mortgage Market Index	564.0		526.8
Thursday, Aug 11				
8:30AM	Jul Import prices mm (%)	+0.1	-0.3	0.2
8:30AM	Jul Export prices mm (%)	+0.2	0.0	0.8
Friday, Aug 12				
8:30AM	Jul Retail sales mm (%)	0.0	0.4	0.6

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
10:00AM	Jun Business inventories mm (%)	+0.2	0.1	0.2
Wednesday, Oct 12				
1:00PM	10-yr Note Auction (bl)	20		
Thursday, Oct 13				
1:00PM	30-Yr Bond Auction (bl)	12		

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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