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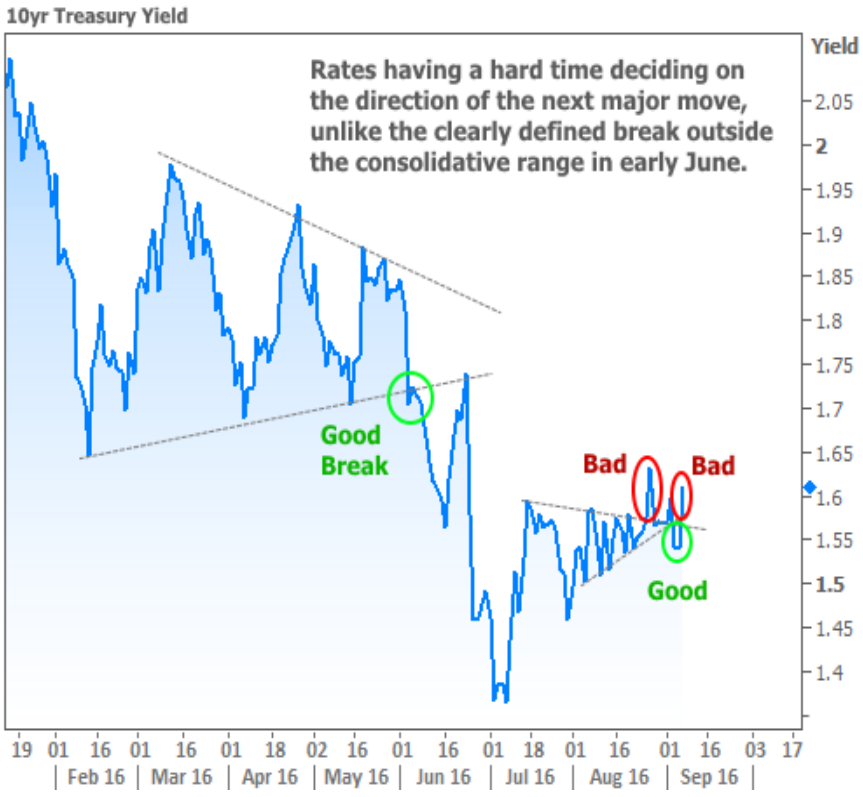
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The Not So Secret Driving Force Behind Mortgage Rate Movement

Have you ever wondered if there was some secret force driving a majority of market movement? Trust those instincts. There really is one elephant in the room when it comes to market movement, and it's not so secret! In fact, there are **several sightings** just this week.

In the previous newsletter, we examined several examples of "consolidating ranges" in interest rates. These ranges create a series of **lower highs and higher lows** in rates. If we draw lines along those highs and lows, they eventually converge.

Conventional market wisdom holds that rates tend to make **bigger moves** when they break out of these patterns. Early June was a classic example (as seen in the following chart). But the more recent example is having a hard time making up its mind.



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	98.72	+0.01
10 YR Treasury	5.1266	-0.0076
30 YR Treasury	5.4752	-0.0006

Pricing as of: 11/16 7:19PM 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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To be sure, there are **never any sure bets** when it comes to how a particular market pattern will play out. If rates always did what they did in June, traders would always bet accordingly and no one would make money. It's not uncommon to see several breakout attempts before markets finally figure it out and commit to move substantially higher or lower.

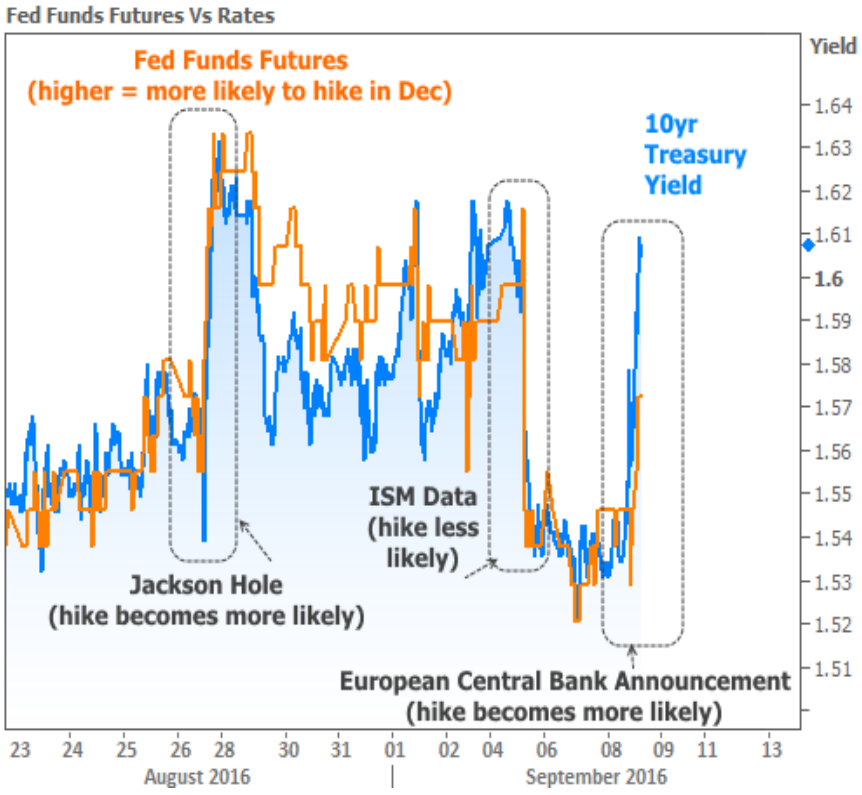
While we can't be sure of the direction of the next move, we can **unequivocally know what will cause it:** "monetary policy of the world's major central banks." This is not-so-secret market mover refers to the rate-setting and bond buying programs of the big central banks like the Fed, the ECB (European Central Bank), and the BOJ (Bank of Japan). Collectively, this is the only game in town when it comes to any major change in interest rates.

For instance, if news comes out that makes investors think the Fed is more likely to hike rates in the **future**, interest rates move higher in the **present**! If data comes out that makes investors think the Fed will have to hold off, rates move lower immediately!

Even if it's the European Central Bank that hints at a decreased willingness to prolong its bond buying program (which could be several months in the future), interest rates in the US can feel the **immediate** need to move higher in anticipation of decreased long-term bond-buying demand (greater demand for bonds causes bond prices to rise and yields/rates to fall).

In fact, several of these factors are causing volatility for rates this week. Exceptionally weak economic data on Tuesday (ISM Non-Manufacturing) led markets to abruptly adjust Fed rate hike expectations. Then on Thursday, the ECB did indeed hint at a decreased willingness to extend its bond buying program. The **effect on interest rates was plain to see**, as was the correlation with Fed rate hike expectations.

The following chart shows those rate hike expectations along with 10yr Treasury yields (the best proxy for momentum in longer-term interest rates like mortgages).

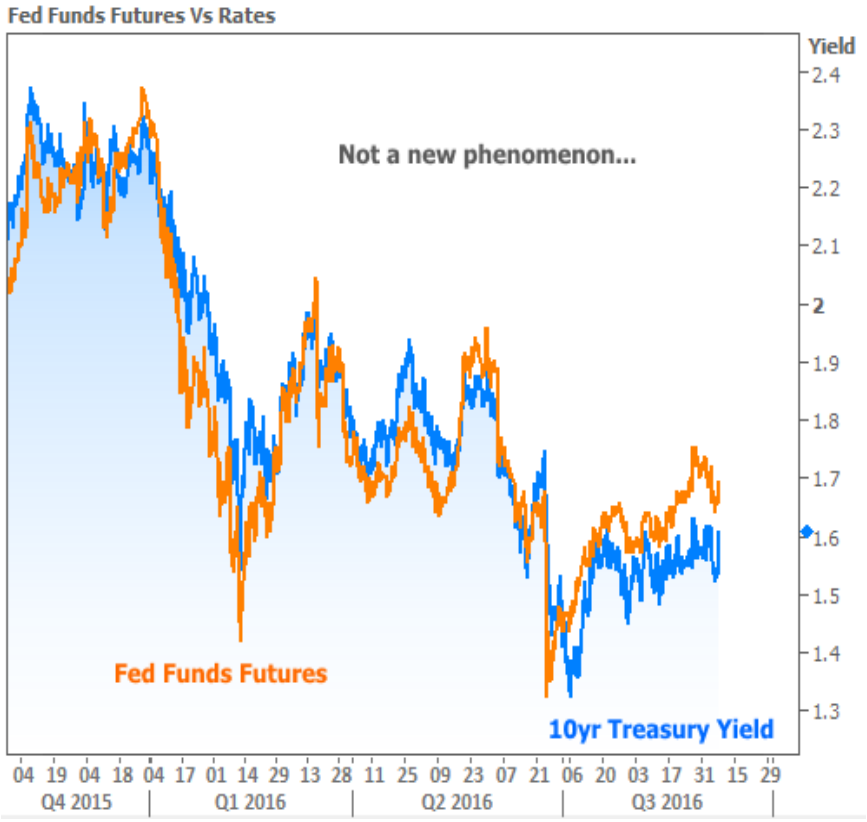


This is **not** a new or isolated phenomenon. A quick look at a longer-term chart quite clearly shows the extent to which interest rates have been generally transfixed by Fed rate hike expectations.

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While there is **always** plenty to see and discuss when it comes to financial markets, and while certain events may seem extra important at the time, it's good to remember that interest rate movement all comes back to central bank expectations.

An important caveat here is that "expectations" are very different from actual central bank rate changes. For instance, mortgage rates and Treasury yields **fell AFTER** the Fed hiked rates in late 2015. But rates had risen in the previous 10 months! Incidentally, Fed members were increasingly talking about their desire to hike rates during that 10 month time frame. In other words, it was the increased rate hike expectations that caused the rise in mortgage/Treasury rates, rather than the actual Fed Funds Rate hike in December.

Housing-Specific News

With the shorter post-holiday week, there hasn't been much by way of substantial housing-specific news. Black Knight's Mortgage Monitor showed **originations at a 3-year high** in the second quarter, with a substantial jump in both purchases and refis.

CoreLogic released its latest Home Price Index. The results were positive, suggesting that **prices may not be decelerating** quite as quickly as the firm suggested last month. Even so, CoreLogic is calling for an annual increase of 5.4 percent over the next 12 months--a modest deceleration from the current 6.0 percent pace.

Fannie Mae's Home Purchase Sentiment Index fell slightly in August after hitting survey highs in July. There were **notable changes** both in the amount of respondents who think home prices will go up in the next 12 months as well as those who think it's a good time to sell.

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Recent Economic Data

Event Importance:

No Stars = Insignificant

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US Housing Market Weekly

September 8, 2016

Date	Event	Actual	Forecast	Prior
Tuesday, Sep 06				
10:00AM	Aug ISM N-Mfg PMI	51.4	55.0	55.5
10:00AM	Aug ISM N-Mfg Bus Act	51.8	58.8	59.3
Wednesday, Sep 07				
7:00AM	w/e Mortgage Market Index	549.9		545.2
Thursday, Sep 08				
8:30AM	w/e Initial Jobless Claims (k)	259	265	263
Friday, Sep 09				
10:00AM	Jul Wholesale inventories mm (%)	0.0	0.0	0.0
10:00AM	Jul Wholesale sales mm (%)	-0.4	0.2	1.9
Monday, Sep 12				
1:00PM	3-Yr Note Auction (bl)	24		
Tuesday, Sep 13				
12:00AM	Roll Date - Fannie Mae 30YR, Freddie Mac 30YR			
Wednesday, Sep 14				
8:30AM	Aug Import prices mm (%)	-0.2	-0.1	0.1
8:30AM	Aug Export prices mm (%)	-0.8	0.1	0.2
Thursday, Sep 15				
8:30AM	Sep Philly Fed Business Index	12.8	1.0	2.0
8:30AM	Aug Retail sales mm (%)	-0.3	-0.1	0.0
8:30AM	Sep NY Fed manufacturing	-1.99	-1.00	-4.21
8:30AM	Aug Producer Prices (%)	0.0	0.1	-0.4
8:30AM	Aug Core Producer Prices MM (%)	+0.1	0.1	-0.3
9:15AM	Aug Industrial output mm (%)	-0.4	-0.3	0.7
9:15AM	Aug Capacity utilization mm (%)	75.5	75.7	75.9
10:00AM	Jul Business inventories mm (%)	0.0	0.1	0.2
Friday, Sep 16				
8:30AM	Aug CPI mm, sa (%)	+0.2	0.1	0.0
8:30AM	Aug Core CPI index, sa	248.34		247.71
10:00AM	Sep Consumer Sentiment Prelim	89.8	90.8	89.8
Wednesday, Oct 12				
1:00PM	10-yr Note Auction (bl)	20		
Thursday, Oct 13				
1:00PM	30-Yr Bond Auction (bl)	12		

☆ Low
★ Moderate
★★ Important
★★ Very Important

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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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