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What's Behind The Year's Biggest Spike in Mortgage Rates?

The term **"taper tantrum"** refers to the market movements that took place in mid-2013 as the Federal Reserve increasingly confirmed it would begin reducing the amount of bonds it was buying under its quantitative easing ("QE") program. Because QE targeted Treasuries and mortgage-backed-securities, it had a profound effect on mortgage rates, bringing them to all-time lows in the fall of 2012.

May and June of 2013 were the worst two months in modern economic history for mortgage rates in terms of the pace of movement. Ironically, it wasn't until the European Central Bank (ECB) began work on **its own QE plan** in April 2014 that rates finally began to make a meaningful recovery.

The connection between European policy and US interest rates may **seem** counterintuitive, but there is a strong correlation between the government bonds of the world's biggest economies. If there was to be a huge, guaranteed source of demand for European bonds, then US bonds would experience some of the benefit.

The remainder of 2014 consequently saw rates move progressively lower in anticipation of European QE. By the time ECB QE was officially approved in early 2015, rates were once **again approaching all-time lows**. The rest of 2015 would serve as the market's opportunity to catch its breath before continuing the trend in 2016.

The case of QE in the US taught us that rates could continue falling as long as central bank bond-buying was either steady or potentially expanding. As soon as the Fed indicated QE was "steady or potentially contracting," it marked a **sea-change** for the rate environment.

Investors are now **anxiously awaiting** a similar big-picture shift in European bond-buying. Even though European officials have denied having those conversations, an article from earlier this week cited anonymous officials as saying there was consensus on the need to consider reducing the pace of bond-buying.

Whether or not the sources were accurate, the **proverbial can of worms** has been opened. Markets are ready to pounce on even the smallest hint of confirmation out of Europe. To that end, the European Central Bank announcement on October 20th could be a focal point for volatility.

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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Between now and then, the mood is definitely defensive. Even after the big jobs report came in weaker than expected this week, rates refused to come down from the highest levels in more than 3 months. If we look at 10yr Treasury yields (the best proxy for general momentum in longer-term rates like mortgages), we can see a new trend taking shape, and potentially breaking an important ceiling (roughly 1.73%).



Despite the doom and gloom, **perspective** is easy to find in the bigger picture. After all, during almost any other time in history, today's mortgage rates would be all-time lows. It's only in relation to the "low 3's" in July that today's "mid 3's" seem anything other than stellar.

It's also worth keeping in mind that financial markets will **never** move in a straight line. Some say the lowest rates are behind us, but that's a premature conclusion as long as we continue to operate in the broader downtrend seen in the following chart. That said, **even if** rates go on to make new all-time lows in the future, periodic corrections toward higher rates are **inevitable**. The severity and duration of such corrections are the only uncertainties.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Oct 03				
10:00AM	Sep ISM Manufacturing PMI	51.5	50.3	49.4
10:00AM	Aug Construction spending (%)	-0.7	0.2	0.0
10:00AM	Sep ISM Mfg Prices Paid	53.0	52.9	53.0
Tuesday, Oct 04				
9:45AM	Sep ISM-New York index	719.7		719.9
Wednesday, Oct 05				
7:00AM	w/e Mortgage Market Index	542.2		527.1
8:15AM	Sep ADP National Employment (k)	154.0	166	177
8:30AM	Aug International trade mm $ (bl)	-40.73	-39.3	-39.5
10:00AM	Sep ISM N-Mfg PMI	57.1	53.0	51.4
10:00AM	Sep ISM N-Mfg Bus Act	60.3	52.2	51.8
10:00AM	Aug Factory orders mm (%)	+0.2	-0.1	1.9
Thursday, Oct 06				
8:30AM	w/e Initial Jobless Claims (k)	249	253	254
8:30AM	w/e Continued jobless claims (ml)	2.058	2.090	2.062
Friday, Oct 07				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	Sep Non-farm payrolls (k)	+156	175	151
8:30AM	Sep Unemployment rate mm (%)	5.0	4.9	4.9
Monday, Oct 10				
12:00AM	Columbus Day			
Wednesday, Oct 12				
7:00AM	w/e Mortgage Market Index	509.6		542.2
11:30AM	3-Yr Note Auction (bl)	24		
1:00PM	10-yr Note Auction (bl)	20		
Thursday, Oct 13				
8:30AM	Sep Import prices mm (%)	+0.1	0.2	-0.2
8:30AM	Sep Export prices mm (%)	+0.3	0.0	-0.8
1:00PM	30-Yr Bond Auction (bl)	12		
Friday, Oct 14				
8:30AM	Sep Retail sales mm (%)	0.6	0.6	-0.3
8:30AM	Sep Core Producer Prices MM (%)	+0.2	0.1	0.1
8:30AM	Sep Core Producer Prices YY (%)	+1.2	1.2	1.0
10:00AM	Aug Business inventories mm (%)	+0.2	0.2	0.0
10:00AM	Oct Consumer Sentiment Prelim	87.9	91.9	91.2

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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