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Absence of Drama Lifts Rates From 2017 Lows

Mortgage rates are driven primarily by the bond market. Bonds can be a safe haven for investors if there are high-risk events on the horizon, or if headlines create a spike in uncertainty. If events pass without too much drama, and if uncertainty ebbs, investors move money back out of bonds, thus **pushing rates higher**. That was this week in a nutshell.

Heading into the week, rates were in line with **7-month lows** thanks to last Friday's weak jobs report. Rates moved slightly lower from there as investors braced for more drama surrounding big-ticket events at the end of the week. Of these, the most important was the hotly-anticipated Senate testimony of former FBI Director Comey.

Back in mid-May, both stocks and bonds reacted **forcefully** to news that Comey's memos might incriminate President Trump. The "I-word" (impeachment) was thrown around excessively. It **seemed** like big news at first glance, but there were plenty of details to work through before any high drama could be confirmed.

Stocks were quickly able to shrug it off, putting the burden of proof on the drama. Bonds, on the other hand, had to account for the **possibility** of drama (after all, they're the "safe haven"). Risks surrounding elections in the UK and a policy announcement from the ECB (European Central Bank) also helped bonds hold their ground.

Of those 3 big-ticket events, only the ECB proved **helpful** to bond markets. That helpfulness was **overshadowed** by an absence of significant drama in the Comey hearing. The UK election technically did produce some drama, but not the kind that bond markets were hoping for.

The result was a steady move **higher in rates** throughout the week. 10yr Treasury yields (the benchmark for momentum in longer-term rates like mortgages) rose almost perfectly in line with levels seen just before last week's 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	98.72	+0.02
10 YR Treasury	5.1260	-0.0082
30 YR Treasury	5.4741	-0.0017

Pricing as of: 11/16 7:32PM EST

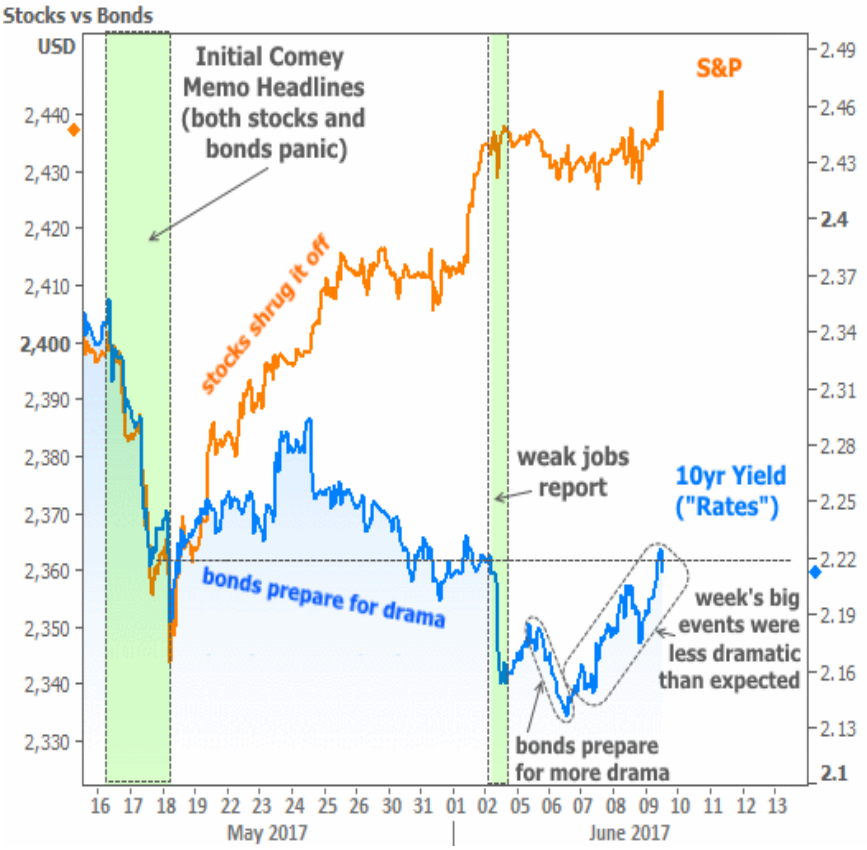
Recent Housing Data

		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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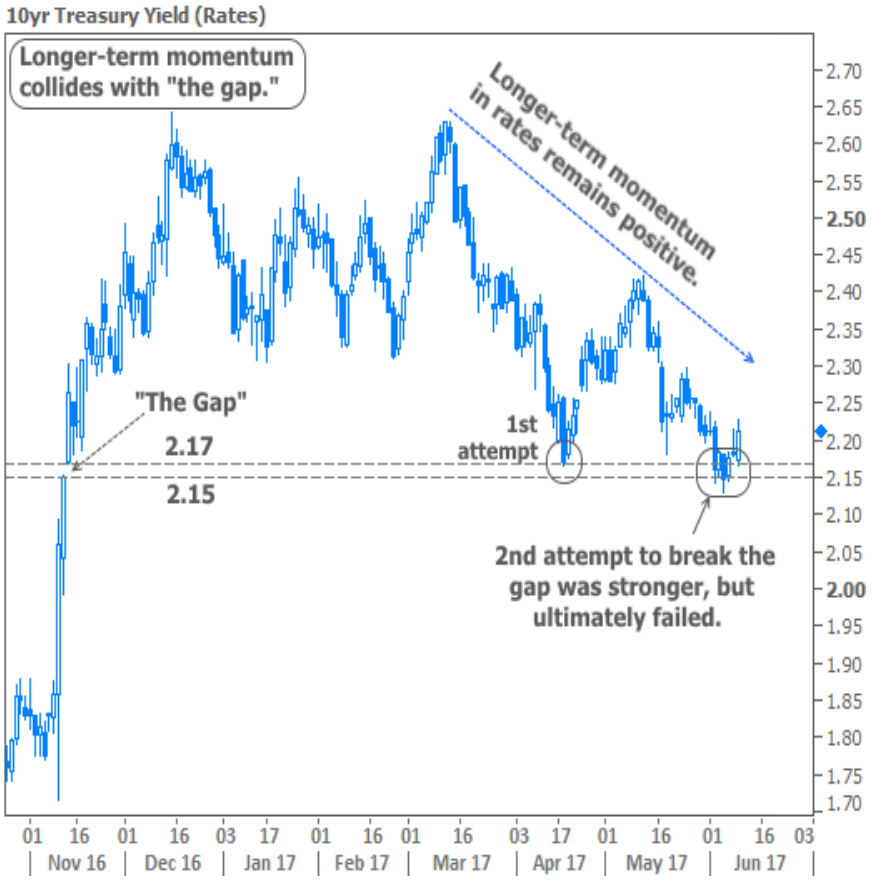


In the bigger picture, this week wasn't any more volatile than most other examples. Additionally, the longer-term trend since March 2017 is arguably toward **lower** rates. The potential problem is the that rates continue struggling to break below **the gap** seen in the following chart (and discussed in last week's newsletter).

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These sorts of gaps can be significant lines in the sand for investors. This particular gap corresponds to average mortgage **rates near 4.0%**. As such, 10yr yields will need to break well below 2.15% if we're to see widespread availability of conventional 30yr fixed rates in the high 3 percent range.

Elsewhere in the mortgage and housing markets, the news was mixed. CoreLogic's Home Price Index logged an **impressive 6.9%** year-over-year pace of appreciation, but that was down slightly from 7.1% last month. Tight supply and a competitive bidding environment in some areas remain common themes in the home price story.

Homeowners are well aware of the issue. Fannie Mae's Home Purchase Sentiment Index showed a **record number** of respondents (since the survey's inception in 2011) think that now is a "good time to sell."

On the policy front, the NAHB lobbied for the **mortgage interest tax deduction** and the House passed the Financial Choice Act, which would make several changes to Dodd-Frank as written. That said, if the bill remains alive, it would almost certainly be revised by the Senate--perhaps substantially.

In the coming week, the focus will be squarely on Wednesday's Fed Announcement. A hike of the Fed Funds Rate is almost **universally expected**. Markets have priced it in. In other words, next week's Fed rate hike doesn't mean mortgage rates will move higher.

Instead, investors will focus on the Fed's verbiage--**specifically** anything that formally alludes to the changes in the Fed's reinvestment strategy (expected by the end of the year). Of **equal or greater importance** will be any changes in the Fed's rate hike outlook.

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The last time the Fed updated its forecasts, the implied rate-hike pace was slower than markets expected, resulting in a **nice move lower** for rates. If the Fed offers a similar surprise this time around, it could reinvigorate the battle for longer-term rates to break below "the gap." **But** if the Fed speeds up its outlook, "the gap" could quickly begin to look like "the floor" (at least for now).

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 05				
8:30AM	Q1 Labor Costs Revised (%)	+2.2	2.4	3.0
8:30AM	Q1 Productivity Revised (%)	0.0	0.0	-0.6
10:00AM	May ISM N-Mfg PMI	56.9	57.0	57.5
10:00AM	Apr Factory orders mm (%)	-0.2	-0.2	0.5
Wednesday, Jun 07				
7:00AM	w/e Mortgage Market Index	430.6		402.2
7:00AM	w/e Mortgage Refinance Index	1368.7		1323.1
7:00AM	w/e MBA Purchase Index	261.9		238.1
3:00PM	Apr Consumer credit (bl)	+8.20	15.50	16.43
Thursday, Jun 08				
8:30AM	w/e Initial Jobless Claims (k)	245	242	248
10:13AM	James Comey Testimony			
Friday, Jun 09				
10:00AM	Apr Wholesale inventories mm (%)	-0.5	0.2	-0.3
Monday, Jun 12				
11:30AM	3-Yr Note Auction (bl)	24		
Tuesday, Jun 13				
8:30AM	May Core Producer Prices YY (%)	+2.1	2.0	1.9
Wednesday, Jun 14				
8:30AM	May Retail sales mm (%)	-0.3	0.1	0.4
8:30AM	May CPI mm, sa (%)	-0.1	0.0	0.2
8:30AM	May Core CPI Year/Year (%)	+1.7	1.9	1.9
2:00PM	N/A FOMC rate decision (%)	1.00-1.25	1.125	0.875
Thursday, Jun 15				
8:30AM	May Import prices mm (%)	-0.3	-0.1	0.5
8:30AM	Jun Philly Fed Business Index	27.6	24.0	38.8
9:15AM	May Industrial Production (%)	0.0	0.2	1.0
9:15AM	May Capacity Utilization (%)	76.6	76.7	76.7
10:00AM	Jun NAHB housing market indx	67	70	70
Friday, Jun 16				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	May Housing starts number mm (ml)	1.092	1.215	1.172
8:30AM	May Building permits: number (ml)	1.168	1.250	1.228
10:00AM	Jun Consumer Sentiment Prelim	94.5	97.1	97.1
Wednesday, Jul 12				
1:00PM	10-yr Note Auction (bl)	20		
Thursday, Jul 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.

Ted Rood

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