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Home Sales Blast Off But Rates Take Wildest Ride

The last newsletter discussed how the Senate's tax bill had moved through committee and possibly toward a full vote this week. Tax reform is a big deal for markets, so it was no surprise to see stocks and bonds (which underlie mortgage rates) hold steady on Monday as they waited for updates.

This left the week's early spotlight on New Home Sales, which increased at the fastest pace in a **decade!** The news was well-received considering the previous report was strong enough to raise doubts about the overall trend (New Home Sales data is historically more volatile than other home sales data).

Revisions to the last report turned out to be minimal. Moreover, the new report trounced expectations for a 6 percent decline, instead **rising** by 6.2 percent. While this doesn't bring us back to the previous peaks (some would argue those weren't healthy anyway), there's no question that the trajectory looks great.

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	98.70	+0.00
10 YR Treasury	5.1260	-0.0082
30 YR Treasury	5.4741	-0.0017

Pricing as of: 11/16 7:31PM EST

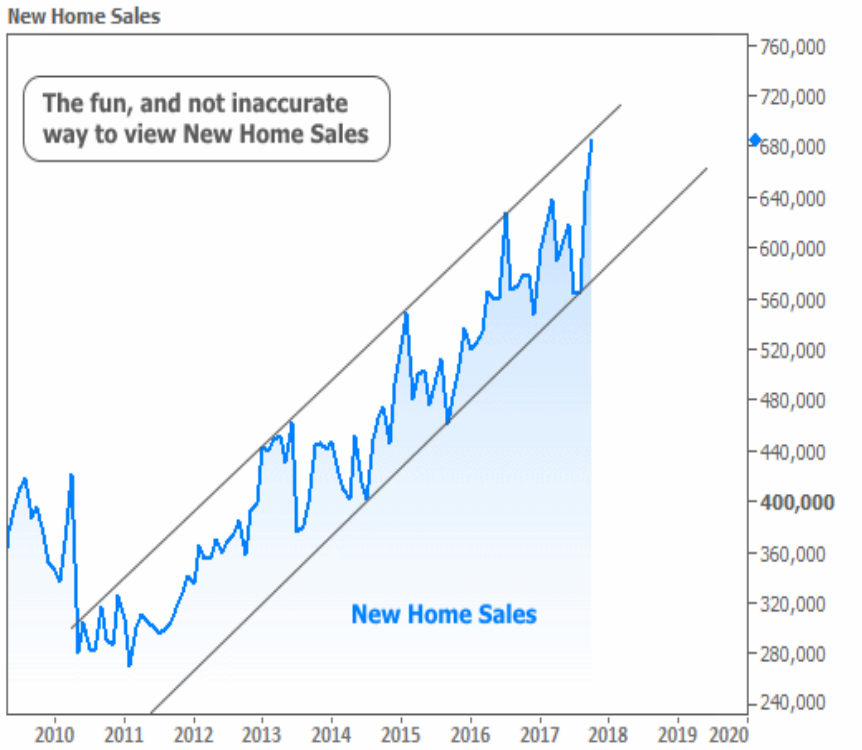
Recent Housing Data

		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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As the week progressed, markets **stole the show** from economic data as they reacted to political headlines. Most of the headlines regarding tax reform were within the realm of expectations. We knew the Senate would be trying to tweak the bill in order to gain enough support from GOP holdouts to get the 51 requisite votes. They were ultimately successful.

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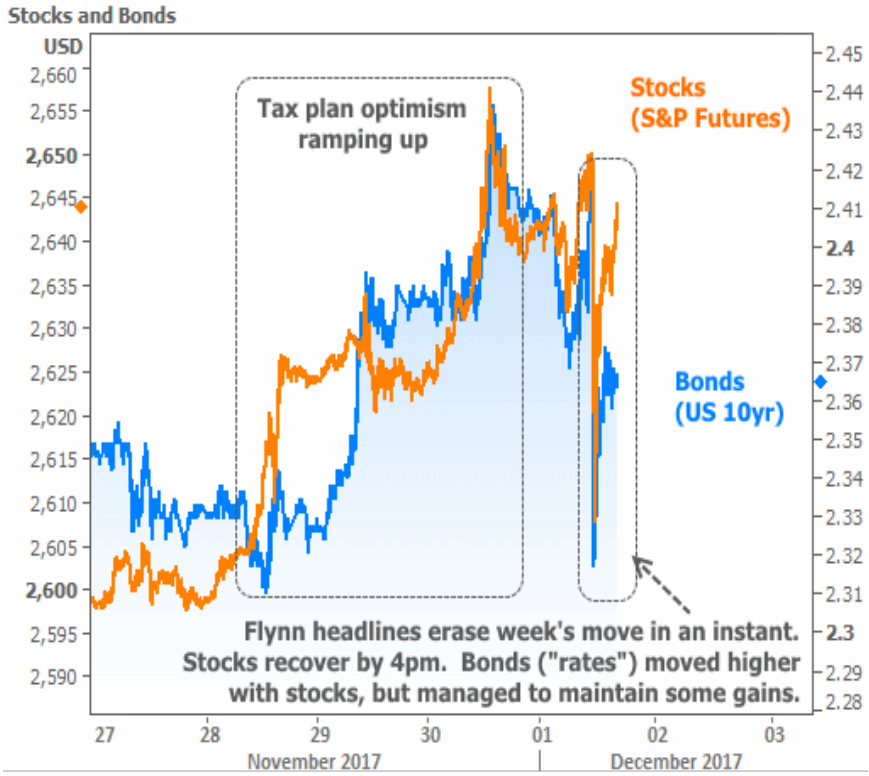
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Stocks and rates rose throughout the week as the tax bill's chances of survival improved. Some mainstream media outlets reported LOWER mortgage rates, but they **should be ignored**. The stories in question are based on stale survey data that hadn't yet caught up to the mid-week volatility. Mortgage rates actually hit 1-month highs on Thursday.

This particular move higher was **bad news** for fans of low rates, because it suggested an important shift in the recent trend. The trend in question consisted of an increasingly narrow range leading into this week. When such ranges are broken, there tends to be extra momentum in the direction of the break. It would have taken a massively important and unexpected development to counteract the negative implications.

As luck would have it, that's exactly what happened on Friday! Federal prosecutors reported that former National Security Advisor Flynn **pleaded guilty** to perjury regarding his communications with Russia. More importantly, Flynn struck a plea deal for reduced charges.

Markets were left to imagine the plea was likely in exchange for information that could incriminate other members of the administration. If Trump ends up on that list, it'll make today **look like a picnic**. The simple possibility of such an event was enough for stocks to instantly erase the week's gains and for rising rates to catch a break.



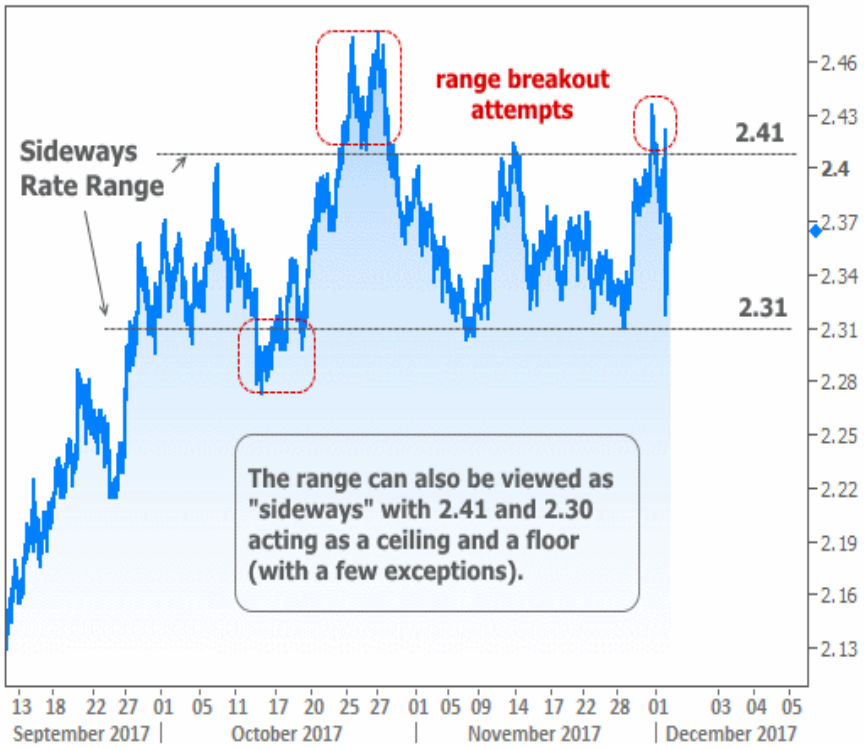
The decline in bond yields brought rates back into that "narrower range" as seen in the following chart, but only for a few hours. With more clarity on the Flynn news (i.e. no specific mention of Trump), stocks and rates eased back toward the morning's levels. Rates remained in better shape on the day, but still on the wrong side of the red lines.

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While the chart above presents rates in terms of 10yr Treasury yields, the implications are the same for mortgage rates. If Treasuries manage to stay below the 2.41% ceiling, **mortgage rates will be happy** to continue operating near current levels. But if Treasuries break much higher, conforming mortgage rates could quickly move back to October's highs.

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Whereas conforming mortgage rates may be in a bit of trouble, there's unequivocally good news for conforming mortgage loan limits. FHFA, which oversees Fannie and Freddie, announced a **loan limit increase** to $453,100 from the current $424,100. Limits are even higher in certain high-cost areas and for multi-unit dwellings.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Nov 27				
10:00AM	Oct New home sales-units mm (ml)	0.685	0.625	0.667
10:00AM	Oct New home sales chg mm (%)	+6.2	-6.0	18.9
1:00PM	5-Yr Note Auction (bl)		34	
Tuesday, Nov 28				
9:00AM	Sep CaseShiller 20 mm SA (%)	0.5	0.4	0.5
10:00AM	Nov Consumer confidence	129.5	124.0	125.9
1:00PM	7-Yr Note Auction (bl)	28		
Wednesday, Nov 29				
7:00AM	w/e Mortgage Refinance Index	1205.1		1306.1
7:00AM	w/e MBA Purchase Index	244.7		240.4
8:30AM	Q3 GDP Prelim (%)	3.3	3.2	3.0
10:00AM	Oct Pending Home Sales (%)	3.5	1.0	0.0
Thursday, Nov 30				
8:30AM	Oct Core PCE (y/y) (%)	+1.4		1.3
8:30AM	Oct Personal Income (%)	+0.4	0.3	0.4
8:30AM	Oct Consumer Spending (Consumption) (%)	+0.3	0.3	1.0
8:30AM	w/e Jobless Claims (k)	238	240	239
9:45AM	Nov Chicago PMI	63.9	63.0	66.2
Friday, Dec 01				
10:00AM	Nov ISM Manufacturing PMI	58.2	58.4	58.7
Monday, Dec 04				
10:00AM	Sep Factory orders mm (%)		1.3	1.2
Tuesday, Dec 05				
10:00AM	Nov ISM N-Mfg PMI	57.4	59.0	60.1
Wednesday, Dec 06				
8:15AM	Nov ADP National Employment (k)	190	185	235
Thursday, Dec 07				
8:30AM	w/e Jobless Claims (k)	236	240	238
Friday, Dec 08				
8:30AM	Nov Non-farm payrolls (k)	228	200	261
10:00AM	Dec Consumer Sentiment	96.8	99.0	98.5

Event Importance:

No Stars = Insignificant
☆ 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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