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Rates Actually Fell to Recent Lows This Week

The rapid rise in rates has been a big problem for the housing and mortgage markets this year. Just last week, some reports suggested rates were near 8 year highs. The same sources reported that rates were 'unchanged' this week. One might conclude rates **remained** at 8 year highs this week, but by Friday, they were the lowest in more than a month!

How can that be?

It all has to do with the sources providing the underlying rate data and the media outlets who report on it. Freddie Mac's weekly mortgage rate survey is the only source of mortgage rate information used by many of the biggest media outlets. That's **unfortunate** for anyone relying on those stories for timely info on day-to-day rate changes. Freddie's survey is accurate in the long-run, but can lag reality by several days.

In fact, the weekly survey is really only a "Mon/Tue and sometimes Wednesday" survey. Thursdays and Fridays **aren't counted**. That means big changes in rates in the 2nd half of the week will NOT be reflected in the news stories citing Freddie's survey--at least in cases where we actually see big moves in the 2nd half of the week.

As you may have guessed, we wouldn't be having this conversation had we not seen **big moves** in the 2nd half of the week! To be fair, "big" is a relative, but we'll take the victories we can get these days. The bottom line is that most lenders were quoting noticeably lower rates by Friday afternoon. The average hadn't been any lower since early October.

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	98.68	-0.01
10 YR Treasury	5.1281	-0.0061
30 YR Treasury	5.4763	+0.0005

Pricing as of: 11/16 7:51PM EST

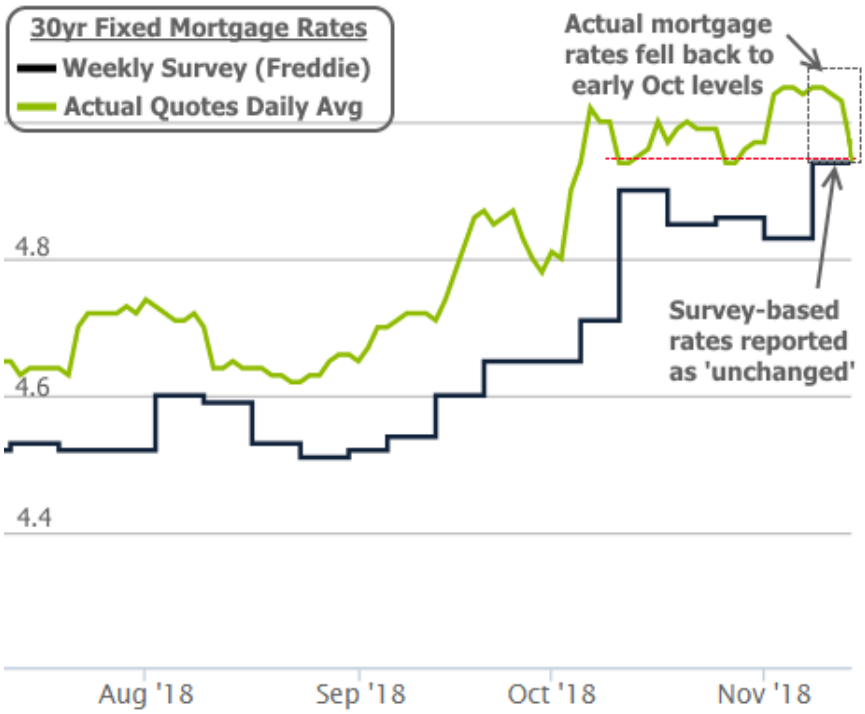
Recent Housing Data

		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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What accounts for this nice drop in rates? Again, the drop is relative. We're still not much lower from those long-term highs. Additionally, this week's move looks similar to the last week in October. In other words, it wasn't especially big or unique. Even so, gains are gains, and we can certainly point to a few sources of inspiration.

Much like that last week in October, **stock market losses** translated to bond market gains (bond gains = lower rates). Bonds have been more willing than normal to follow stocks in the past month. When stocks experience the kind of panic selling seen in early October, bonds tend to soak up some of the money that's looking for a safe haven. More demand for bonds means lower rates, all other things being equal.

Looking just slightly beyond the stock market, there is at least one more supporting actor. You may remember "**Brexit**" from 2016--the term for Great Britain's eventual divorce from the European Union. This is a messy divorce with plenty of negotiation and paperwork. The short version of a very long and boring story is that British lawmakers are having a hard time agreeing on how to proceed, and that could have a fairly big impact on what the final agreement looks like.

The bottom line for now is that there was a palpable spike in uncertainty surrounding Brexit. Uncertainty that impacts the global economy tends to benefit bonds and hurt stocks. The following chart **brings everything together** with stocks, bonds, and British currency (a good barometer for Brexit-related anxiety where "lower" = "worse").

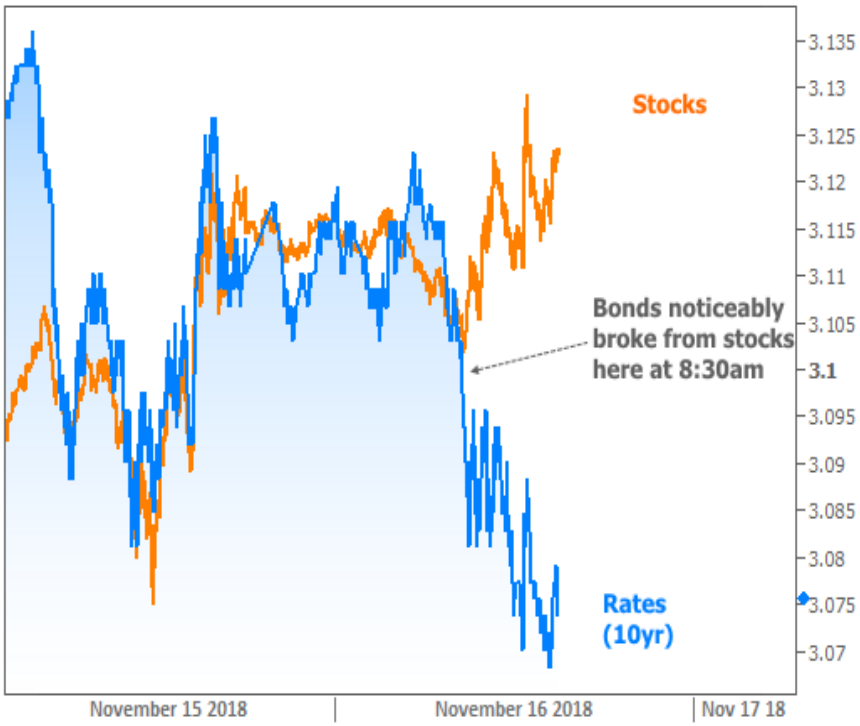
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You may have noticed in the chart above that bonds managed to **improve** on Friday even though stocks were moving higher. We can zoom in on that divergence:



This had to do with comments from newly-appointed Fed Vice Chair Richard Clarida, who said that short term rates are currently **very close to neutral**. That's a fancy way of saying the Fed might be done hiking rates fairly soon--something that flies in the face of comments made by another official on Thursday who said the neutral rate could be more than a full percentage point higher!

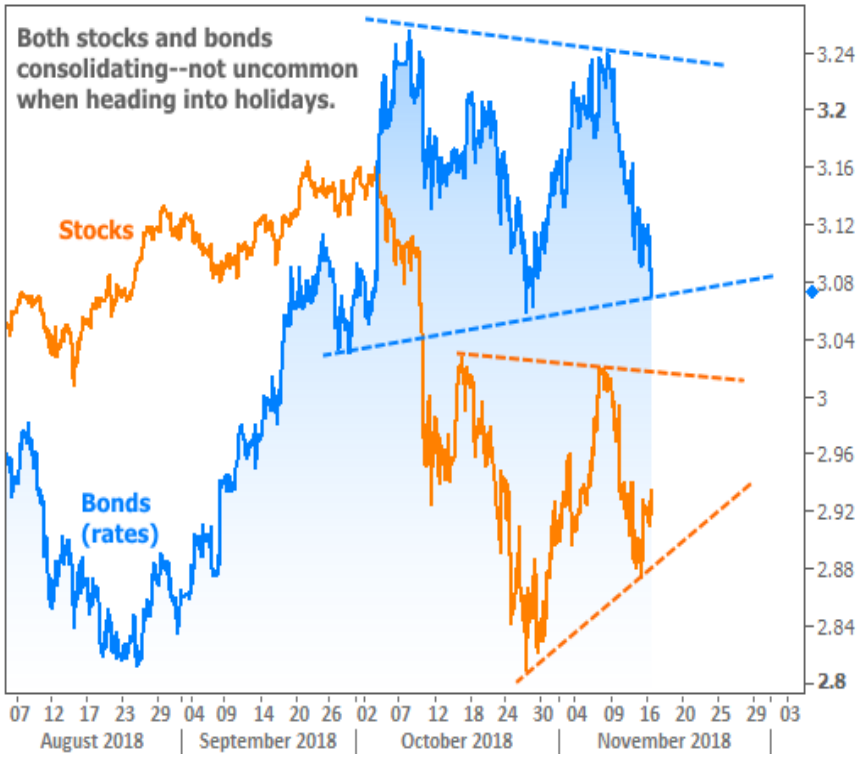
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Clarida outranks the other Fed official, so markets are more willing to react. When the Fed is being dovish (a term that refers to a softer stance on inflation and thus to easier monetary policies), **both** stocks and bonds tend to like it. That makes good sense, then, to see both stocks and bond improve after 8:30am on Friday.

In the grand scheme of things, these moves **haven't** done anything to bring either side of the market out of recent consolidation patterns (though bonds are close!).

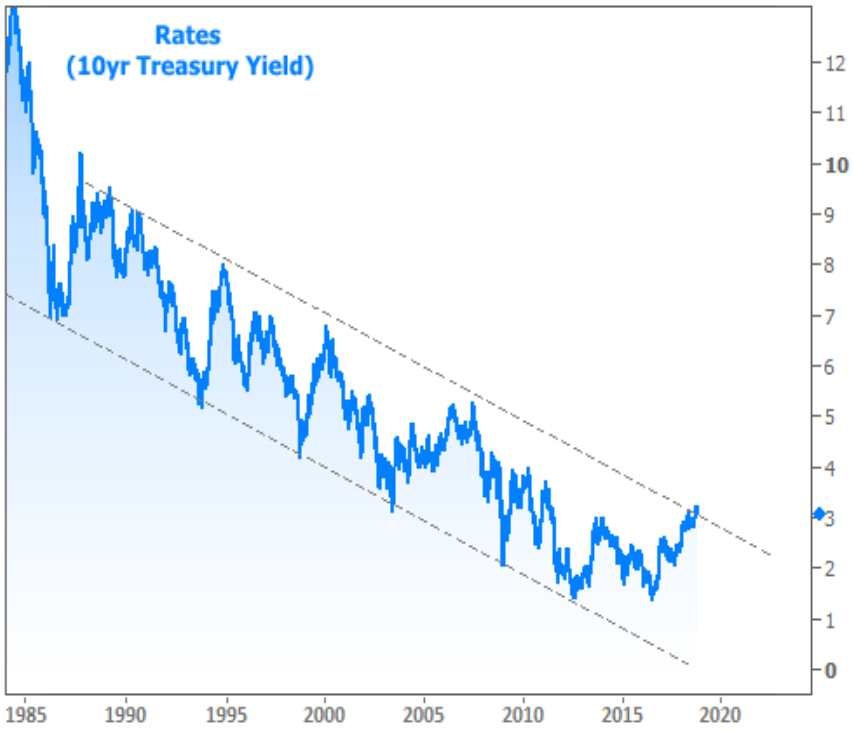


It **wouldn't** be a surprise to see such consolidations continue into the end of the year. That said, if bonds manage to break lower from here, it would keep at least some hope alive for rates re-entering their ultra-long-term downtrend.

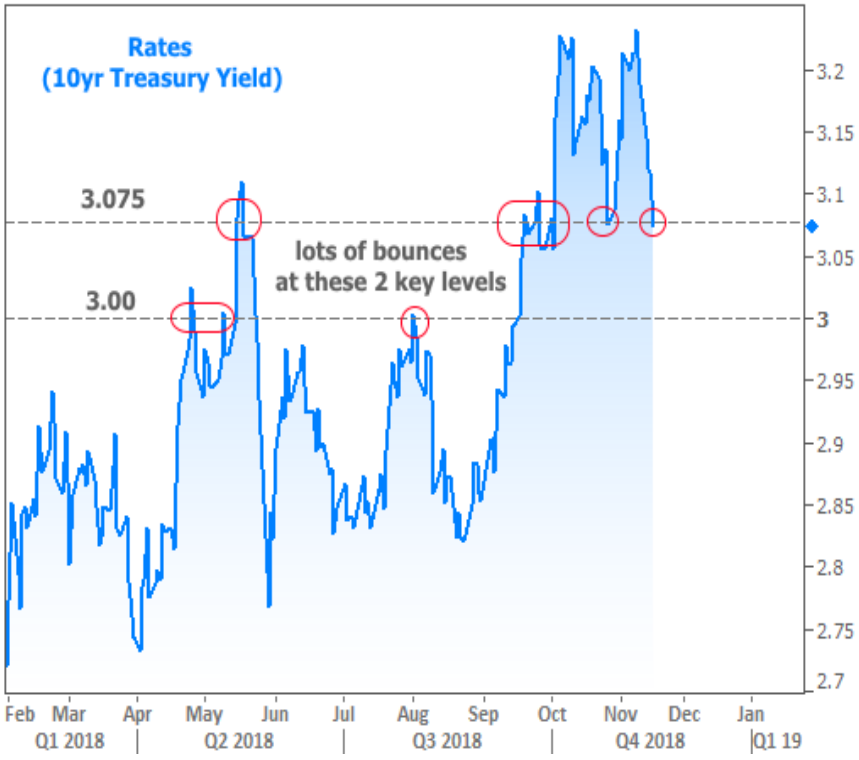
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In terms of important levels to watch in the weeks ahead, 10yr yields ended the week right in line with 3.075%. That's been in the thick of things in terms of ceiling/floor bounces lately. Below that, 3.00% would be the more serious threshold we'd need to cross **before** getting our hopes up too much.



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To reiterate though, the holiday season **casts doubt** on the significance of bond market movement. It may look like something is happening on one day/week only for it to "un-happen" on the following day/week. Thanksgiving week is possibly the worst one to watch as far as getting a reliable idea of bond market momentum. It won't be until the first week of December that financial markets are back at some semblance of full force for a few weeks before 2018 is in the books.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Nov 14				
7:00AM	w/e Mortgage Refinance Index	824.7		861.8
7:00AM	w/e MBA Purchase Index	220.8		213.6
8:30AM	Oct CPI mm, sa (%)	+0.3	0.3	0.1
8:30AM	Oct Core CPI Year/Year (%)	+2.1	2.2	2.2
Thursday, Nov 15				
8:30AM	Oct Retail Sales (%)	+0.8	0.5	0.1
8:30AM	Oct Import prices mm (%)	+0.5	0.1	0.5
8:30AM	Oct Export prices mm (%)	+0.4	0.1	0.0
8:30AM	Nov Philly Fed Business Index	12.9	20.0	22.2
8:30AM	Nov NY Fed Manufacturing	23.3	20.00	21.10
8:30AM	w/e Jobless Claims (k)	216	215	214
10:00AM	Sep Business Inventories (%)	+0.3	0.3	0.5
Friday, Nov 16				
9:15AM	Oct Industrial Production (%)	+0.1	0.2	0.3
9:15AM	Oct Capacity Utilization (%)	78.4	78.2	78.1
Monday, Nov 19				
10:00AM	Nov NAHB housing market indx	60	67	68
Tuesday, Nov 20				
8:30AM	Oct Build permits: change mm (%)	-0.6		1.7
8:30AM	Oct Housing starts number mm (ml)	1.228	1.225	1.201
8:30AM	Oct House starts mm: change (%)	+1.5		-5.3
8:30AM	Oct Building permits: number (ml)	1.263	1.267	1.270
Wednesday, Nov 21				
7:00AM	w/e MBA Purchase Index	227.7		220.8
7:00AM	w/e Mortgage Refinance Index	783.7		824.7
8:30AM	Oct Durable goods (%)	-4.4	-2.5	0.7
8:30AM	Oct Nondefense ex-air (%)	0.0	0.2	-0.1
8:30AM	w/e Jobless Claims (k)	224	218	216
10:00AM	Oct Existing home sales (ml)	5.22	5.20	5.15
10:00AM	Nov U Mich Sentiment Final (ip)	97.5	98.3	98.3

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
10:00AM	Nov U Mich 1Yr Inf Final (%)	2.8		2.8
10:00AM	Nov U Mich 5-Yr Inf Final (%)	2.6		2.6
10:00AM	Oct Exist. home sales % chg (%)	+1.4	1.0	-3.4
Thursday, Nov 22				
12:00AM	Thanksgiving Day			

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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