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Don't Trust This Week's Mortgage Rate Headlines! (Except This One)

Without a shadow of a doubt, the average lender's mortgage rates are noticeably higher this week versus last week, with Friday being the worst of the bunch. Despite that fact, there were multiple news stories this week regarding a massive DROP in rates. What's up with that?

Before we continue, you may wonder who you can trust if you're getting two entirely different stories. Thankfully, you can trust both stories! The one about **lower** rates simply needs some qualification.

This week's misleading headlines are invariably a result of Freddie Mac's weekly mortgage rate survey. This is the longest-running and one of the most highly regarded records of interest rate movement over time. A majority of news organizations rely on it as the primary source for their once-a-week coverage of rates.

During more normal times, this strategy is good enough. The mainstream consumer of financial news doesn't particularly need a new update on rates every day (unless they're home shopping). And Freddie's data does a great job of capturing the broad, long-term trends in rates.

Unfortunately, it does a **terrible** job of capturing rate changes when bonds are experiencing high volatility, especially if that volatility occurs during the last 3 days of the week.

Here's why (in 2 levels of detail):

> **The most basic level:** Freddie reports its survey results on Thursday, but collects most responses on Mon/Tue. This means news outlets are really reporting a Mon/Tue rate versus last week's Mon/Tue rate. If there's big rate movement on Wed-Fri, the headlines may suggest rates made a big move in one direction when they actually did the opposite.
>
> **The more detailed level (skip to "MBS Prices" if you're satisfied with the basic level):** Freddie sends the survey out on Monday morning, and receives a majority of responses within 24 hours. It continues to accept responses through Wednesday although daily rate data suggests Wednesdays have almost no impact on the result. Results are not published until Thursday morning.

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	98.71	+0.01
10 YR Treasury	5.1266	-0.0076
30 YR Treasury	5.4731	-0.0027

Pricing as of: 11/16 7:20PM 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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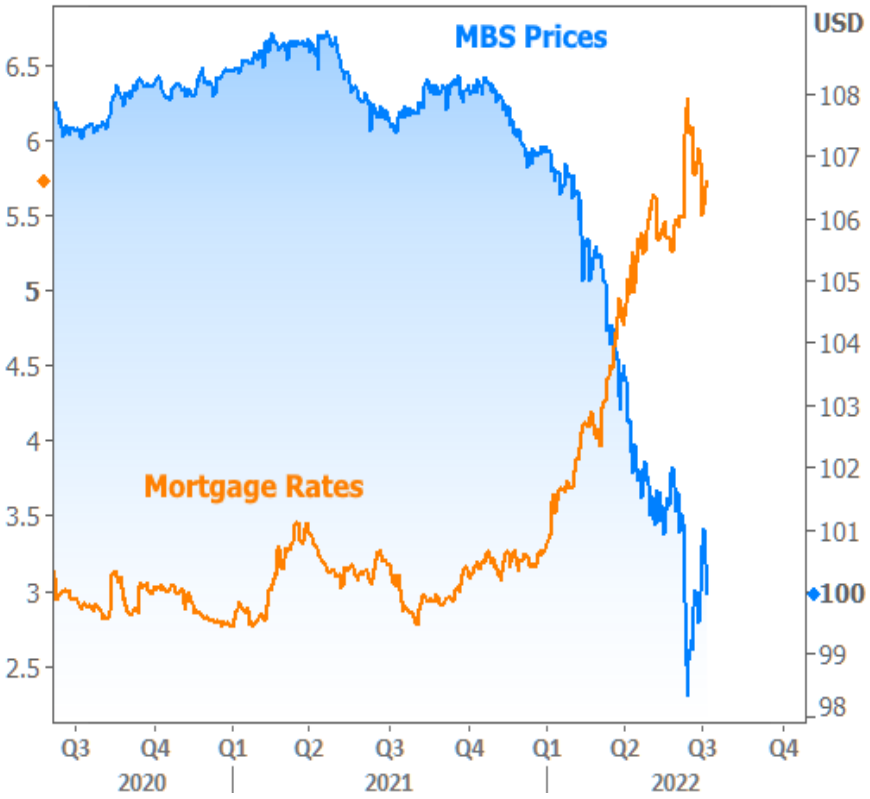
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This creates an obvious problem: by the time rates are reported on Thursday, they may significantly higher or lower than they were at the beginning of the week. The problem is compounded with the previous week saw volatility in the other direction.

For instance, if last week's rates were high on Mon/Tue, then plummeted on Wed/Thu, the Freddie survey would record a result that is far too high. Then in the present week, if rates were simply **unchanged** at the beginning of the week, Freddie's survey would show a big **drop** from the previous week. From there, if rates spiked again, by Thursday, rates could be significantly **higher** than they were on the previous Thursday. At the exact same time, hundreds of news organizations and social media posts would be blasting out headlines about "**much lower** rates."

MBS Prices

Mortgage rates, as offered by mortgage lenders, tend to only be updated 1-3 times per day, depending on market volatility. But the bonds that determine mortgage rates (mortgage-backed securities or "MBS") move **constantly**. Charting that movement shows us the real-time forces affecting rates. The only catch is that MBS prices move inversely from rates. For example:

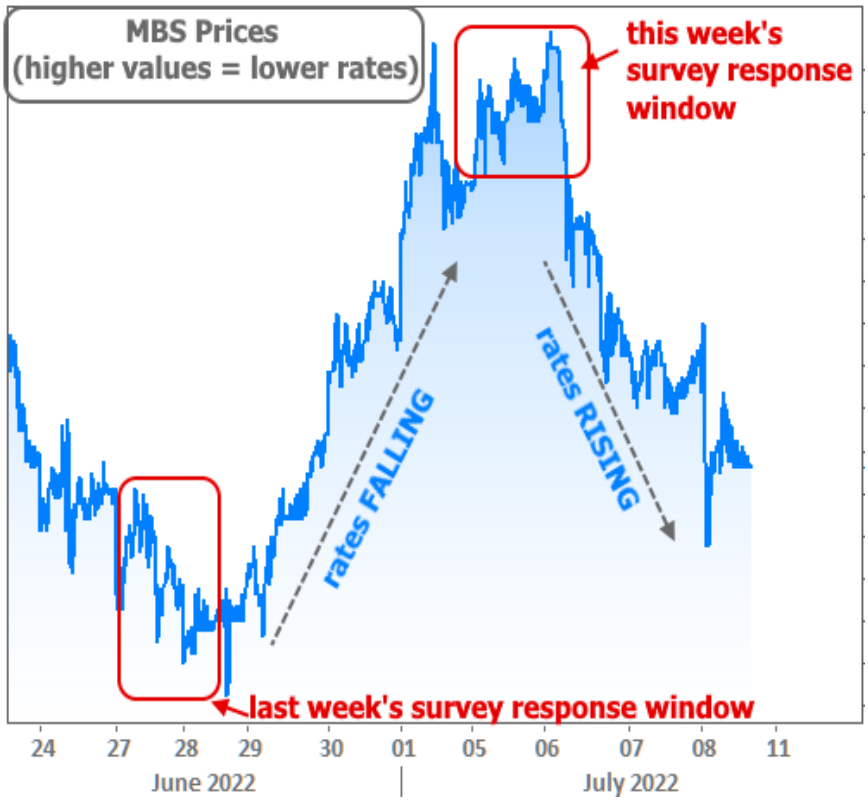


With that in mind, let's drill down on MBS price movement over the past few weeks to uncover the big issue with Freddie's rate survey.

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Bottom line on mortgage rates: the timing of the past 2 Freddie surveys was as bad as it could have been with respect to painting a misleading picture of reality. It resulted in headlines proclaiming a near-record weekly drop in mortgage rates on Thursday--the same day that rates were already noticeably higher than most of the previous week.

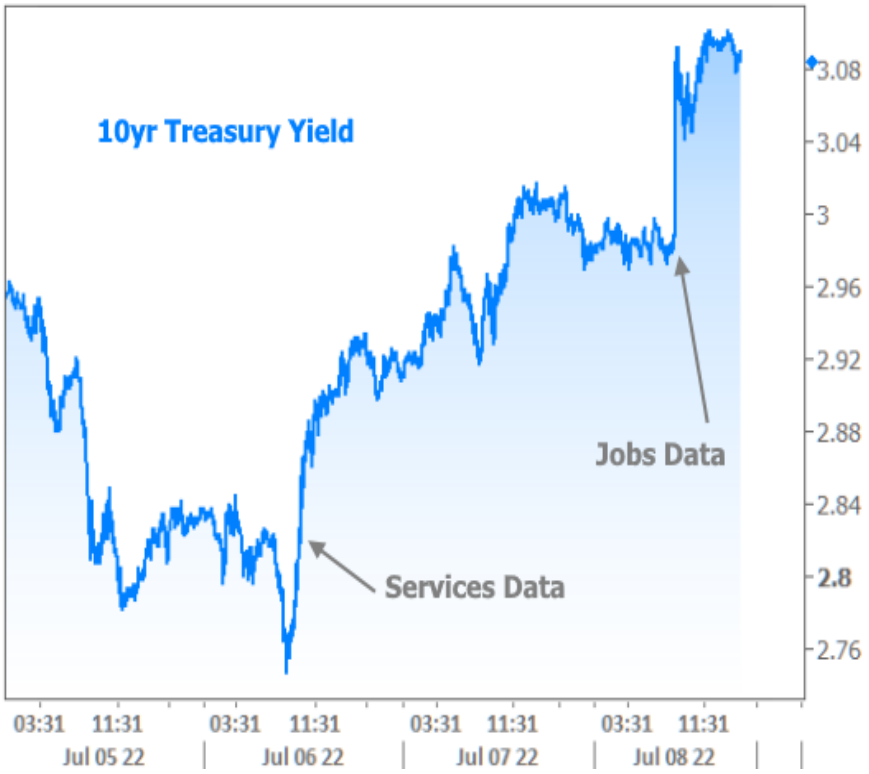
In this week's other economic news, we can see some of the data responsible for the upward pressure on rates. In general rates move higher when economic data is stronger than expected (with expectations based on economists' forecasts).

There were two big ticket economic reports this week: Wednesday's report on the health of the services sector and Friday's official jobs data. Both were stronger than expected. The following chart shows 10yr Treasury yields, which correlate well with mortgage rates.

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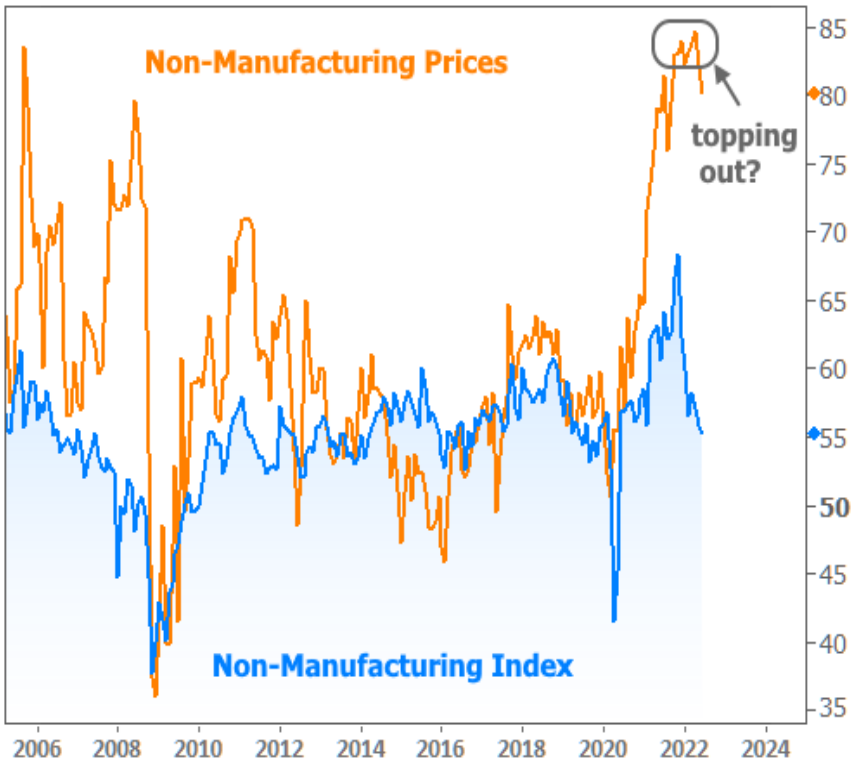
While these reactions were clear enough, next Wednesday brings the potential for a **much bigger** reaction. That's when the next installment of the monthly Consumer Price Index (CPI) is released. Whereas the jobs report is traditionally the most important economic report for rates, CPI is currently far more important because it is the most widely-followed inflation index in the US (and inflation is the driving force behind the massive rate spike in 2022).

Markets are going into next Wednesday with an open mind. CPI is the biggest game in town, but it's not the only game. To use a timely example, the services sector data mentioned above (technically the ISM Non-Manufacturing Index) also has a "prices paid" component. This is one of many ways market participants follow price trends. Clearly, prices are still very high, but like several other economic reports, the trend suggests a potential shift.

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All that to say that investors aren't heading into the big CPI data with an agenda to push rates higher or lower. The market is nimble at current levels and should react in a relatively logical manner. Specifically, a big drop in inflation would almost certainly push rates lower, while a marked increase could easily send us back up to the recent highs.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jul 05				
10:00AM	May Factory orders mm (%)	1.6	0.5	0.3
Wednesday, Jul 06				
7:00AM	w/e MBA Refi Index	670.3		726.1
7:00AM	w/e MBA Purchase Index	232.6		243.1
10:00AM	Jun ISM N-Mfg PMI	55.3	54.3	55.9
2:00PM	Fed Meeting Minutes			
Thursday, Jul 07				
8:30AM	w/e Jobless Claims (k)	235	230	231
Friday, Jul 08				
8:30AM	Jun Average earnings mm (%)	0.3	0.3	0.3
8:30AM	Jun Non-farm payrolls (k)	372	268	390
8:30AM	Jun Unemployment rate mm (%)	3.6	3.6	3.6
3:00PM	May Consumer credit (bl)	+22.35	31.90	38.07

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Monday, Jul 11				
1:00PM	3-Yr Note Auction (bl)	43		
Tuesday, Jul 12				
1:00PM	10-yr Note Auction (bl)	33		
Wednesday, Jul 13				
7:00AM	w/e MBA Purchase Index	224.3		232.6
7:00AM	w/e MBA Refi Index	685.3		670.3
8:30AM	Jun Consumer Price Index (CPI) (%)	1.3	1.1	1.0
8:30AM	Jun Core CPI (Annual) (%)	5.9	5.7	6.0
1:00PM	30-Yr Bond Auction (bl)	19		
Thursday, Jul 14				
8:30AM	Jun Producer Prices (%)	1.1	0.8	0.8
8:30AM	Jun Core Producer Prices YY (%)	8.2	8.1	8.3
8:30AM	w/e Jobless Claims (k)	244	235	235
Friday, Jul 15				
8:30AM	Jun Retail Sales (%)	1.0	0.8	-0.3
8:30AM	Jun Import prices mm (%)	0.2	0.7	0.6
8:30AM	Jul NY Fed Manufacturing	11.10	-2.00	-1.20
9:15AM	Jun Industrial Production (%)	-0.2	0.1	0.2
10:00AM	Jul 5yr Inflation Outlook (%)	2.8		3.1
10:00AM	Jul 1yr Inflation Outlook (%)	5.2		5.3
10:00AM	Jul Consumer Sentiment	51.1	49.9	50.0

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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