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Brexit Opens 'All-Time Low Rate' Conversation

Last week, we discussed the reasons that the British referendum to leave the European Union (aka "Brexit") would be a big deal for mortgage rates. It turns out **"big deal"** may have been an **understatement**.

In a **surprise** to many market participants, British voters **approved** the referendum and the U.K. will now begin the process of extricating itself from the EU. For all the reasons discussed last week, this created a **significant reaction** in financial markets, quickly bringing US Treasury yields very close to all-time lows.

We talk a lot about Treasury yields (particularly the 10yr) because they are the **quintessential benchmarks** for interest rate movement in the US. Especially in the wake of the financial crisis, 10yr Treasuries have been an excellent indicator for mortgage rate movement.

As such, it's **no surprise** to see big improvements in mortgage rates following the Brexit vote. But mortgage rates aren't nearly as close to their all-time lows as Treasury yields. What's up with that?

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.34%	+0.01	0.00
15YR Fixed	6.89%	0.00	0.00
30YR FHA	6.96%	+0.01	0.00
30YR Jumbo	7.45%	+0.01	0.00
7/6 SOFR	6.83%	+0.02	0.00
30YR VA	6.97%	0.00	0.00

Rates as of: 11/23

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.78	+0.22
10 YR Treasury	4.8884	-0.0578
30 YR Treasury	5.2758	-0.0326

Pricing as of: 11/24 11:59AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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First of all, even under the best of circumstances, mortgage rates **have a hard time keeping up** with the size and pace of movement in Treasuries. The bonds that underlie mortgage rates (MBS) don't see nearly as much trading activity despite the relatively large transaction size. Treasuries, on the other hand, can respond instantly and globally. Meanwhile, MBS buyers may have a hard time finding the right seller (or vice versa) as quickly as they'd like, and they're almost always limited to US trading hours.

All other things being equal, if we gave mortgage rates enough time, they would eventually match the movement seen in Treasuries, assuming Treasury yields went lower **and stayed there**. That doesn't tend to be how things work in financial markets though and herein lies another problem for mortgage rates when it comes to keeping up with Treasuries. Volatility not only causes MBS to underperform, but it also discourages lenders from offering aggressive pricing on the first day of a major improvement in MBS.

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Think about it: if you have a more specialized product that's harder to buy and sell, big fluctuations in the prices of similar, less-specialized products are hard to keep up with.

Then there are the more complicated nuts and bolts. For example, the guarantee fees imposed by Fannie and Freddie are higher today than they were in 2012. **Other costs are higher** as well due to implementation of new compliance laws. These higher costs mean MBS would have to reach even better levels than they did in 2012 in order for lenders to get rates back to 2012's all-time lows.

None of this is to say we can't get back to those lows, simply that **it will take more doing** and, at the very least, more time.

Housing-Specific News

Existing Home Sales led the charge in terms of housing data this week, with prices hitting an **all-time high** and sales hitting the highest levels in nearly a decade.

New Home Sales, on the other hand, **fell 6 percent** month-over month, despite maintaining a year-over-year increase of 8.7 percent.

Earlier this week a survey from the MacArthur Foundation showed that more than 4 in 5 Americans think housing **affordability is a problem**, with 3 in 5 seeing it as a serious problem.

A CNBC article **pushes back** on the notion that housing inventory and "a lack of starter homes" is behind sluggish sales, citing several areas of the country where starter home demand (and price) is actually falling.

Overall, **home price data** continues to be a mixed bag, with long-term gains offset by deceleration in those gains. Specifically, FHFA reported only a 0.2 percent increase in prices in its most recent data compared to an increase of 0.8 percent in the previous month's data. On an annual basis, appreciation declined from 6.1 to 5.9 percent.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 20				
1:00PM	2-Yr Note Auction (bl)	26		
Tuesday, Jun 21				
10:14AM	Yellen Congressional Testimony			
1:00PM	5-Yr Note Auction (bl)	34		
Wednesday, Jun 22				
7:00AM	w/e Mortgage Market Index	522.2		507.7
10:00AM	May Existing home sales (ml)	5.53	5.54	5.45
1:00PM	7-Yr Note Auction (bl)	28		
Thursday, Jun 23				
8:30AM	w/e Initial Jobless Claims (k)	259	267	277
10:00AM	May New home sales-units mm (ml)	0.551	0.560	0.619
10:00AM	May New home sales chg mm (%)	-6.0	-8.7	16.6

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Friday, Jun 24				
8:30AM	May Durable goods (%)	-2.2	-0.5	3.4
10:00AM	Jun U Mich Sentiment Final (ip)	93.5	94.0	94.3
Tuesday, Jun 28				
8:30AM	Q1 GDP Final (%)	+1.1	1.0	0.8
9:00AM	Apr CaseShiller 20 yy (%)	+5.4	5.4	5.4
10:00AM	Jun Consumer confidence	98	93.3	92.6
Wednesday, Jun 29				
7:00AM	w/e Mortgage Market Index	508.4		522.2
8:30AM	May Personal income mm (%)	+0.2	0.3	0.4
8:30AM	May Consumption, adjusted mm (%)	+0.4	0.4	1.0
8:30AM	May Core PCE price index mm (%)	+0.2	0.2	0.2
10:00AM	May Pending homes index	110.8		116.3
Thursday, Jun 30				
9:45AM	Jun Chicago PMI	56.8	50.7	49.3
Friday, Jul 01				
10:00AM	Jun ISM Manufacturing PMI	53.2	51.4	51.3
10:00AM	May Construction spending (%)	-0.8	0.6	-1.8
2:00PM	Independence Day			

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