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# This Week's Rate Spike and The Risks Ahead

Last week, we discussed why rates keep breaking to new lows in 2017. This week we'll take a closer look at why they **abruptly spiked** to the highest levels of the month, and examine the potential market movers on the horizon.

First, let's recall the factors that did the most to push rates lower, namely **geopolitical risks** surrounding North Korea and the approach of Hurricane Irma. Events like these put downward pressure on rates by creating uncertainty which, in turn, leads investors to move money into safer havens like bonds. Excess demand for bonds pushes bond prices higher and rates lower.

As far as we knew last week, Irma was the storm of the century and North Korea stood a good chance of testing another missile over the weekend. Reality ended up being **slightly less dire** than Friday's fears suggested. There was no substantive news out of North Korea, and Irma--while still tremendously destructive--ended up doing less damage than predicted.

In other words, markets were braced for impacts that never fully materialized. This provided a cue for traders to **lower** their defenses first thing Monday morning. That meant unwinding the bond-buying that had taken place in the previous week (i.e. **selling** bonds, thus pushing rates higher).

Bond-selling was compounded by the surrounding environment. This week saw heavy "supply" (new bonds being brought to market), both by the US government (Treasury auctions) and via the corporate bond market. Even though corporate bonds don't directly impact mortgage rates, when supply spikes, there tends to be **slight upward pressure** on rates in general as the corporate bonds compete for investor attention.

Additionally, last week's movement left rates in what market technicians refer to as an "overbought" condition. In simpler terms, there had been **too much momentum** in one direction and some investors had been forced to **buy** bonds when they otherwise would have preferred to avoid it. When markets finally found a reason for bonds to bounce, those investors were keen to bet on rates moving back up (by selling bonds). It was a classic market correction, albeit on a small scale.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.27% | **0.00** | 0.00 |
| 15YR Fixed | 6.92% | **0.00** | 0.00 |
| 30YR FHA | 6.91% | **+0.01** | 0.00 |
| 30YR Jumbo | 7.52% | **-0.03** | 0.00 |
| 7/6 SOFR | 6.70% | **-0.08** | 0.00 |
| 30YR VA | 6.92% | **+0.01** | 0.00 |

Rates as of: 11/2

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.74 | **-0.12** |
| 10 YR Treasury | 4.9476 | **+0.0428** |
| 30 YR Treasury | 5.3168 | **+0.0273** |

Pricing as of: 11/3 11:46AM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 21 | 195 | +3.39% |
| 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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The bulk of the correction took place during the first 3 days of the week. Rates found a supportive ceiling around 2.22% in terms of 10yr yields, but weren't interested in moving much lower for a few reasons. The most obvious reason would be that last week's gains were based on **temporary** factors.

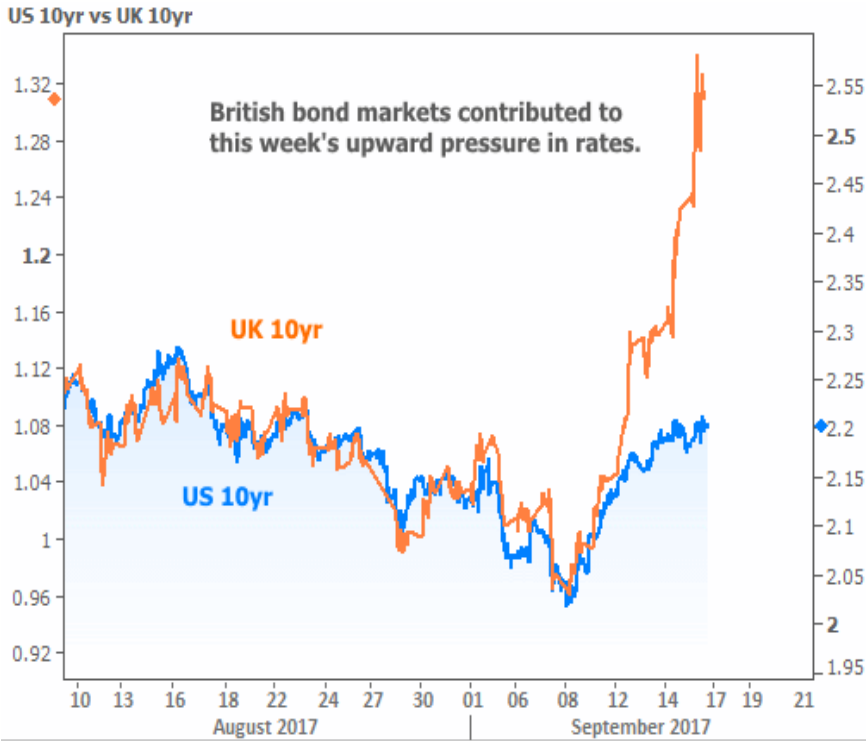
Inflation data was slightly stronger on Thursday and Friday. Bonds/rates are very interested in inflation at the moment because it's the last thing holding back the Fed from more rate hikes. Stable-to-stronger inflation **doesn't help** rates, all things being equal.

Rate hikes among other major central banks also puts pressure on rates in the US--especially if the cues are coming from Europe. This week it was the Bank of England on Thursday saying it was getting closer to a rate hike. British yields spiked rapidly. While this isn't a **primary** source of inspiration for US rates, like the inflation data, it didn't help.

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How about stocks? There's always a **temptation** to blame the stock market when rates are moving higher. At first glance, there's a good case for that this week considering stocks hit new highs. But the correlation between rates and stocks has been too sporadic to give all the credit to this "asset allocation" trade (i.e. selling bonds and buying stocks). After all, rates were falling the last few times stocks moved up to all-time highs.

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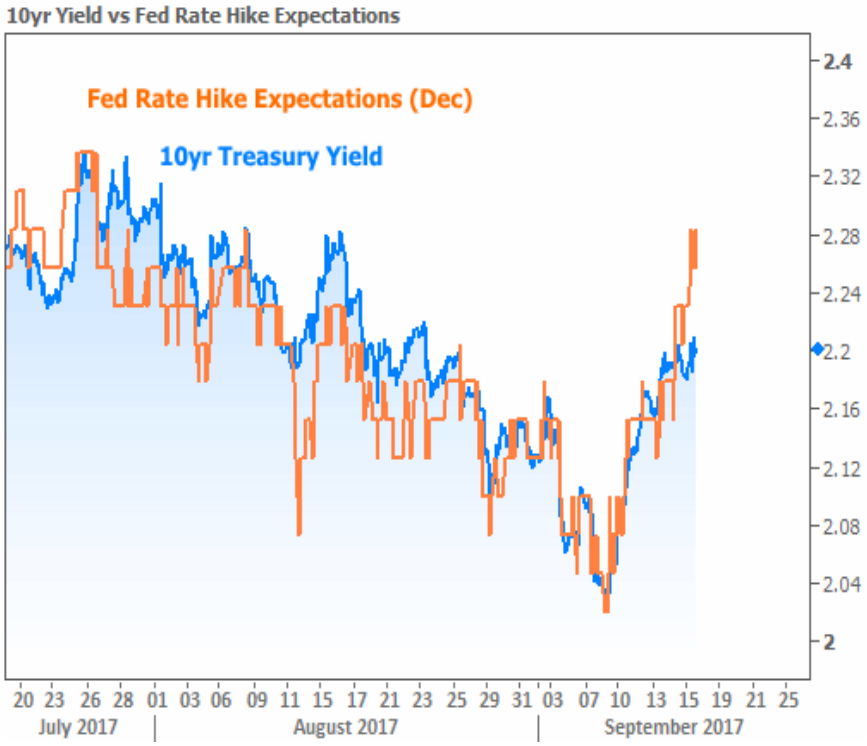

Risky events, inflation data, and tighter monetary policy abroad all exert some influence on rates because they all inform the likelihood of the next Fed rate hike. The Fed isn't the only game in town when it comes to long-term rate momentum, but it is the **most important**.

Waning geopolitical risks, stabilizing inflation data, and less severe hurricane damage make it that much more possible for the Fed to hike rates in December. The following chart shows December's rate hike odds relative to movement in 10yr Treasury yields (the best benchmark for momentum in longer-term rates like mortgages). It's here we see the most correlation over the past few months and a clear bounce at the beginning of this week.

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Next week brings several of the big housing-related economic reports as well as a **landmark Fed policy statement**. Markets widely expect the Fed to announce the beginning of its balance sheet tapering program. That's already mostly reflected in current rate levels, but the confirmation could still be worth some volatility--especially if it's accompanied by any change in the rate hike outlook.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Sep 11** | | | | |
| 1:00PM | 3-Yr Note Auction (bl) | 24 | | |
| **Tuesday, Sep 12** | | | | |
| 12:00AM | Roll Date - Fannie Mae 30YR, Freddie Mac 30YR | | | |
| **Wednesday, Sep 13** | | | | |
| 7:00AM | w/e Mortgage Refinance Index | 1636.8 | | 1502.6 |
| 7:00AM | w/e MBA Purchase Index | 252.0 | | 227.3 |
| 8:30AM | Aug Producer Prices (%) | 0.2 | 0.3 | -0.1 |
| 8:30AM | Aug Core Producer Prices YY (%) | 2 | 2.1 | 1.8 |
| **Thursday, Sep 14** | | | | |
| 8:30AM | Aug CPI mm, sa (%) | +0.4 | 0.3 | 0.1 |
| 8:30AM | Aug Core CPI Year/Year (%) | +1.7 | 1.6 | 1.7 |
| 8:30AM | w/e Jobless Claims (k) | 284 | 300 | 298 |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Friday, Sep 15** | | | | |
| 8:30AM | Aug Retail Sales (%) | -0.2 | 0.1 | 0.6 |
| 9:15AM | Aug Industrial Production (%) | -0.9 | 0.1 | 0.2 |
| 9:15AM | Aug Capacity Utilization (%) | 76.1 | 76.8 | 76.7 |
| 10:00AM | Jul Business Inventories (% ) | 0.2 | 0.2 | 0.5 |
| 10:00AM | Sep Consumer Sentiment | 95.3 | 95.1 | 96.8 |
| 10:00AM | Sep 1yr Inflation Outlook (%) | 2.7 | | 2.6 |
| 10:00AM | Sep 5yr Inflation Outlook (%) | 2.6 | | 2.5 |
| **Monday, Sep 18** | | | | |
| 10:00AM | Sep NAHB housing market indx | 64 | 67 | 68 |
| **Tuesday, Sep 19** | | | | |
| 8:30AM | Aug Build permits: change mm (%) | 5.7 | | -3.5 |
| 8:30AM | Aug House starts mm: change (%) | -0.8 | | -4.8 |
| 8:30AM | Aug Building permits: number (ml) | 1.3 | 1.220 | 1.23 |
| 8:30AM | Aug Housing starts number mm (ml) | 1.18 | 1.175 | 1.155 |
| 8:30AM | Aug Export prices mm (%) | 0.6 | 0.2 | 0.4 |
| 8:30AM | Aug Import prices mm (%) | 0.6 | 0.4 | 0.1 |
| **Wednesday, Sep 20** | | | | |
| 7:00AM | w/e Mortgage Market Index | 417.5 | | 462.1 |
| 10:00AM | Aug Existing home sales (ml) | 5.35 | 5.46 | 5.44 |
| 2:00PM | N/A FOMC rate decision (%) | 1.00-1.25 | 1.125 | 1.125 |
| **Thursday, Sep 21** | | | | |
| 8:30AM | Sep Philly Fed Business Index | 23.8 | 17.2 | 18.9 |
| **Wednesday, Oct 11** | | | | |
| 1:00PM | 10-yr Note Auction (bl) | 20 | | |
| **Thursday, Oct 12** | | | | |
| 1:00PM | 30-Yr Bond Auction (bl) | 12 | | |


## Personalized service, educational approach

My name is Brandon Ross, and I'm a Loan Officer with X2 Mortgage, LLC in Arizona. I'm here to help you achieve your real estate goals. As a mortgage broker, I can access numerous programs from the nation's top residential lenders. My promise is to remain valuable by delivering competitive rates at low costs, being available for you on your schedule, and most importantly, spending the time you need to make an informed and sound financial decision.

**Brandon Ross** 


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