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Mortgage Market Remains Transfixed by War

The Iran war continues to dominate financial markets and mortgage rates are no exception. That's no great surprise considering rates are driven by movement in the bond market. Still, the direction of the movement may be a surprise to some.

All else equal, things that cause economic pain and uncertainty tend to be good for rates because they drive investors out of riskier assets like stocks and into safer havens like bonds. Higher demand for bonds begets lower interest rates.

"War" typically qualifies as a rate-friendly catalyst, but there's an important exception for wars that lead to inflation. The chain of causality here is fairly simple. A lot of the world's energy products pass through a waterway that has been heavily impacted by the war. In turn, the prices of those commodities have risen sharply, thus increasing inflation expectations.

Rising inflation expectations go hand in hand with higher interest rates and lower odds of Fed rate cuts. The following chart shows how Fed Funds Rate expectations have changed for the September Fed meeting.

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.55	+0.04
10 YR Treasury	4.9462	+0.0059
30 YR Treasury	5.3089	-0.0235

Pricing as of: 11/23 5:57PM 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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In other words, the market currently sees no chance of a rate cut and a small chance of a rate hike having taken place by then. The trajectory of mortgage rates has been similar with MND's daily index rising above 6.6% this week while weekly indices continue catching up.

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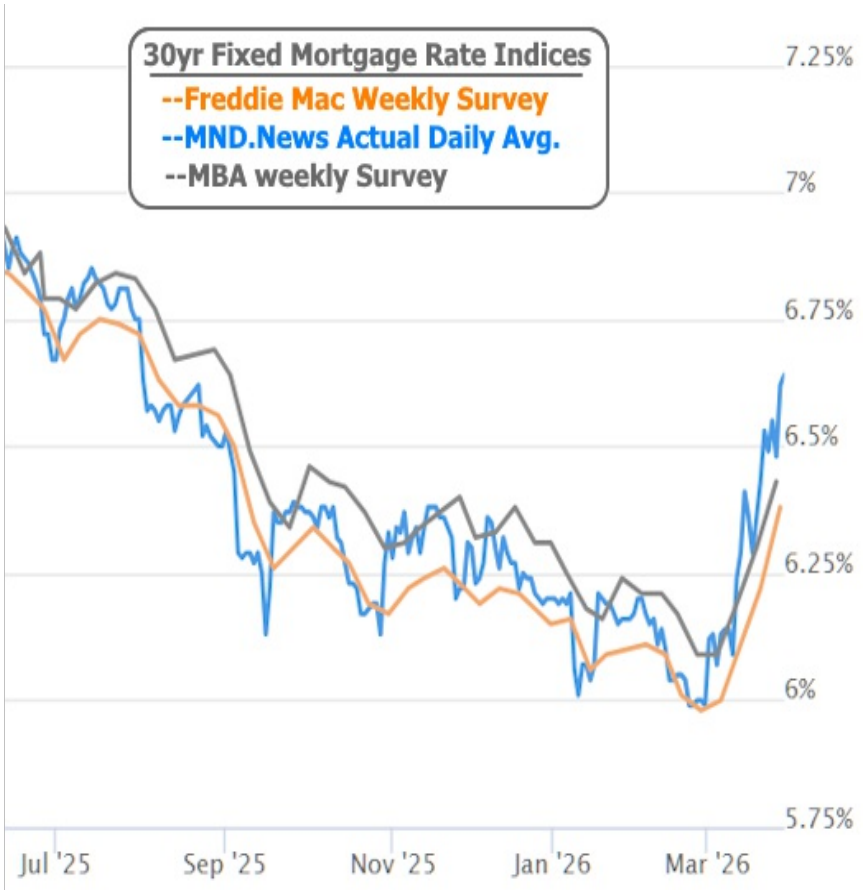

The bond/rate market may be seeing some small benefit from the classic "safe-haven trade" based on the following chart. It shows accelerating losses into the weekend in stocks whereas bond yields are only modestly worst than they were on Monday morning.

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Unfortunately, the bond market is also telling us it will take more than mere stability in oil prices to stem the tide of inflation expectations. Oil prices are actually well under levels seen earlier this month and modestly lower than Monday's levels as well.

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Translation: the rate market assumes that oil prices above 90 dollars will do ongoing damage to the inflation outlook even though "recession" is another potential outcome.

What does this mean for rates/housing? Nothing that can't already be seen in this week's mortgage rate chart. At risk of stating the obvious, the longer the war continues, the more potential there is for rates to rise. If the war officially ends, rates can recover a bit, but it's highly unlikely they'd recover what we've lost so far this month any time soon.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Mar 23				
10:00AM	Jan Construction spending (%)	-0.3%	0.1%	0.3%
Tuesday, Mar 24				
9:45AM	Mar S&P Global Manuf. PMI	52.4	51.3	51.6
9:45AM	Mar S&P Global Services PMI	51.1	51.5	51.7
Wednesday, Mar 25				
7:00AM	Mar/20 MBA Purchase Index	163.6		172.9
7:00AM	Mar/20 MBA Refi Index	1145.0		1341.0
8:30AM	Feb Import prices mm (%)	1.3%	0.5%	0.2%

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Thursday, Mar 26				
8:30AM	Mar/21 Jobless Claims (k)	210K	210K	205K
Friday, Mar 27				
10:00AM	Mar Consumer Sentiment (ip)	53.3	54	56.6
10:00AM	Mar Sentiment: 1y Inflation (%)	3.8%	3.4%	3.4%
10:00AM	Mar Sentiment: 5y Inflation (%)	3.2%	3.2%	3.3%
Tuesday, Mar 31				
9:00AM	Jan FHFA Home Prices y/y (%)	1.6%		1.8%
9:00AM	Jan Case Shiller Home Prices-20 y/y (%)	1.2%	1.3%	1.4%
9:45AM	Mar Chicago PMI	52.8	55	57.7
10:00AM	Feb USA JOLTS Job Openings (ml)	6.882M	6.92M	6.946M
10:00AM	Mar CB Consumer Confidence (%)	91.8	88	91.2
Wednesday, Apr 01				
8:15AM	Mar ADP jobs (k)	62K	40K	63K
10:00AM	Mar ISM Manufacturing PMI	52.7	52.5	52.4
Thursday, Apr 02				
8:30AM	Mar/28 Jobless Claims (k)	202K	212K	210K
8:30AM	Feb Trade Gap (bl)	$-57.3B	$-59.2B	$-54.5B
Friday, Apr 03				
8:30AM	Mar Unemployment rate mm (%)	4.3%	4.4%	4.4%
8:30AM	Mar Non Farm Payrolls (k)	178K	60K	-92K
Monday, Apr 06				
10:00AM	Mar ISM N-Mfg PMI	54.0	55	56.1

Thank You!

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Bob Davis



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