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# Bond Bubble Bursting? Not This Week

One of the week's most interesting headlines came courtesy of the 91-year-old ex-Fed Chair Alan Greenspan who warned of a **bubble bursting** in the bond market. Even if such a thing materializes as a legitimate threat in the future, we're nowhere close at the moment. This week's market movement concurs!

Last week's newsletter discussed the market volatility that can sometimes occur as a result of more esoteric motivations (revisit it here, if you like). These can include things like **compulsory** trades based on changes in an index, or even simply in rates and prices themselves (i.e. traders forced to buy/sell for reasons unrelated to economic data or news).

These less overt market movers are more common at the end of any given month, as well as the first few days of the following month. Last week, they accounted for a rate spike that occurred well before the Fed Announcement (ostensibly the week's focal point). This week, they accounted for a big move in the **other** direction, although they may have had some help.

Right at the time traders were making these "new month" trades (Tuesday morning), GM released **abysmal** sales data. It was bad enough that traders treated it like a form of weak economic data (which can create excess demand for bonds and thus, lower rates). This may have added to the bond buying that was **already** underway.

While we **can't** know exactly how much of the move was driven by the esoteric factors compared to the GM sales data, we **can** see it was certainly the defining moment of the week for rates. From that point on, traders attempted to get in position for what they thought would be a **weaker jobs report** on Friday--the most important economic data on the calendar. When the report **topped** expectations, rates quickly returned to the same levels seen just after Tuesday morning's big move.

## National Average Mortgage Rates


| | Rate | Change | Points |
|---|---|---|---|
| **Mortgage News Daily** | | | |
| 30 Yr. Fixed | 6.87% | -0.02 | 0.00 |
| 15 Yr. Fixed | 6.32% | -0.01 | 0.00 |
| 30 Yr. FHA | 6.33% | 0.00 | 0.00 |
| 30 Yr. Jumbo | 7.05% | 0.00 | 0.00 |
| 5/1 ARM | 6.59% | +0.01 | 0.00 |
| **Freddie Mac** | | | |
| 30 Yr. Fixed | 6.77% | -0.09 | 0.00 |
| 15 Yr. Fixed | 6.05% | -0.11 | 0.00 |

Rates as of: 7/23

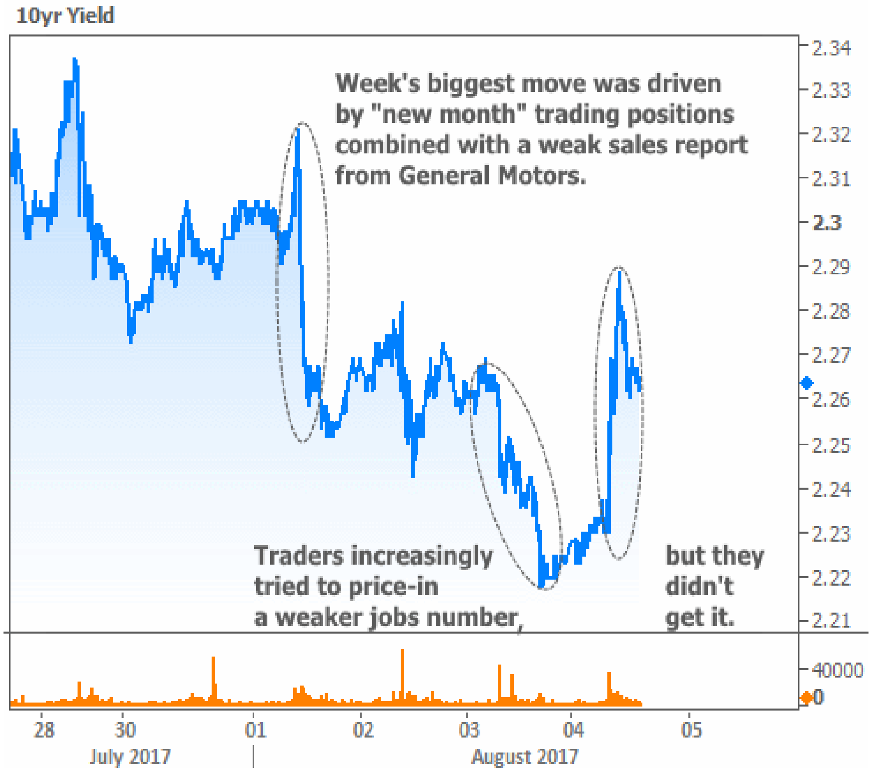
## Market Data

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 5.5 | 99.37 | -0.02 |
| MBS GNMA 5.5 | 99.73 | -0.04 |
| 10 YR Treasury | 4.2525 | 0.0000 |
| 30 YR Treasury | 4.4842 | +0.0117 |

Pricing as of: 7/23 4:49PM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Jul 10 | 206.1 | -0.19% |
| Building Permits | Mar | 1.46M | -3.95% |
| Housing Starts | Mar | 1.32M | -13.15% |
| New Home Sales | Mar | 693K | +4.68% |
| Pending Home Sales | Feb | 75.6 | +1.75% |
| Existing Home Sales | Feb | 3.97M | -0.75% |
| Builder Confidence | Mar | 51 | +6.25% |




**Why does it matter** that we returned to Tuesday morning's levels? Although it's not of earth-shattering importance, it **is** a testament to the flat ranges seen so far in 2017. For a year that was **supposed** to see a disturbing trend toward higher rates, things have actually been far calmer than average. Since the November presidential election, we've spent about half our time inside ranges no wider than 0.30% in terms of 10yr yields. This week's micro-volatility leaves us right in the middle of the current 0.30% range.

In other words, even though people like Greenspan can hypothesize about **scary bond bubbles**, reality has been f**ar more boring**. Markets aren't even making menacing gestures toward the boundaries of these narrow ranges, let alone surging high enough to even begin discussing the sort of big-picture reversals emblematic of a bursting bond market bubble.

Some basic trend lines drawn over the past few years suggest we'd need to see yields moving over 3.0% before the first alarm bells would be going off. In looking at the same chart, it's also striking to see just how **unique** the early 80's look in the biggest picture.


It's **good to remember** that most anyone with a strong opinion on long-term bond trends will either have lived through that aberrant era or have learned from someone who did. This affects the general paradigm about where rates might go in the future.

"Because they were that high in the past" isn't a great argument for their potential range in the future. That's **not to say** rates simply can't or won't move higher. Indeed they can, and indeed that can be painful for prospective mortgage clients hoping for the best rate.

Rather, **the point is** that we're not on the brink of a catastrophic bubble. We're not even outside the prevailing long term trend! Once we **cross** that boundary (dotted parallel lines in the chart above), it would make more sense to start wondering about where rates might go from there.

In **housing-related news** this week, The National Association of Realtors reported the first increase in 4 months for Pending Home Sales. The Mortgage Bankers Association brought mixed offerings, citing a slight improvement in credit availability, but an across-the-board decline in mortgage applications.

Perhaps the **most interesting development of the week** for the mortgage world had to do with Fannie and Freddie's quarterly financial results. Typically a fairly dry affair, this time around both GSEs alluded to the possibility that the FHFA (the agency that oversees them) would take some action to prevent their "capital buffers" from being drawn down to $0 by the end of the year (which is currently the plan). This could foreshadow something of a battle between congress and the FHFA over who gets to hold on to Fannie and Freddie's profits--or a portion of them anyway.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Jul 31** | | | | |
| 9:45AM | Jul Chicago PMI | 58.9 | 60.0 | 65.7 |
| 10:00AM | Jun Pending homes index | 110.2 | | 108.5 |
| **Tuesday, Aug 01** | | | | |
| 8:30AM | Jun Personal income mm (%) | 0.0 | 0.4 | 0.4 |
| 8:30AM | Jun Consumption, adjusted mm (%) | +0.1 | 0.1 | 0.1 |
| 8:30AM | Jun Core PCE price index yy (%) | +1.5 | | 1.4 |
| 10:00AM | Jul ISM Manufacturing PMI | 56.3 | 56.5 | 57.8 |
| 10:00AM | Jul ISM Mfg Prices Paid | 62.0 | 55.5 | 55.0 |
| 10:00AM | Jun Construction spending (%) | -1.3 | 0.4 | 0.0 |
| **Wednesday, Aug 02** | | | | |
| 7:00AM | w/e Mortgage Market Index | 406.6 | | 418.5 |
| 7:00AM | w/e MBA Purchase Index | 235.4 | | 240.1 |
| 7:00AM | w/e Mortgage Refinance Index | 1361.0 | | 1414.3 |
| 8:15AM | Jul ADP National Employment (k) | 178.0 | 185 | 158 |
| 9:45AM | Jul ISM-New York index | 745.5 | | 739.1 |
| **Thursday, Aug 03** | | | | |
| 8:30AM | w/e Initial Jobless Claims (k) | 240 | 240 | 244 |
| 10:00AM | Jul ISM N-Mfg Bus Act | 55.9 | 59.6 | 60.8 |
| 10:00AM | Jul ISM N-Mfg PMI | 53.9 | 57.0 | 57.4 |
| 10:00AM | Jun Factory orders mm (%) | +3.0 | 2.9 | -0.8 |
| **Friday, Aug 04** | | | | |
| 8:30AM | Jul Non-farm payrolls (k) | +209 | 183 | 222 |
| 8:30AM | Jul Unemployment rate mm (%) | 4.3 | 4.3 | 4.4 |
| 8:30AM | Jun International trade mm $ (bl) | -43.6 | -45.0 | -46.5 |
| **Tuesday, Aug 08** | | | | |
| 1:00PM | 3-Yr Note Auction (bl) | 24 | | |
| **Wednesday, Aug 09** | | | | |
| 7:00AM | w/e Mortgage Market Index | 418.7 | | 406.6 |
| 8:30AM | Q2 Productivity Preliminary (%) | +0.9 | 0.7 | 0.0 |
| 8:30AM | Q2 Labor Costs Preliminary (%) | +0.6 | 1.2 | 2.2 |
| 10:00AM | Jun Wholesale inventories mm (%) | +0.7 | 0.6 | 0.6 |
| **Thursday, Aug 10** | | | | |
| 8:30AM | Jul Core Producer Prices YY (%) | +1.8 | 2.1 | 1.9 |
| **Friday, Aug 11** | | | | |

## Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 8:30AM | Jul Core CPI Year/Year (%) | +1.7 | 1.7 | 1.7 |
| **Wednesday, Oct 11** | | | | |
| 1:00PM | 10-yr Note Auction (bl) | 20 | | |
| **Thursday, Oct 12** | | | | |
| 1:00PM | 30-Yr Bond Auction (bl) | 12 | | |

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Breton is a Branch Manager & Sr Loan Officer at the top of his field for over 15 years. Transparency & treating people like family is how he has built a solid network of referral & repeat business over the years. Candor and expertise is how he communicates & consistently closes on time getting the best loan possible. With Geneva Financials' wide array of products & its seamless, straightforward process he will be able to find you the best mortgage structured the right way. With a positive attitude, Breton is consummate pro who is honest, upfront & shoots it to you straight. 949-887-7289

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