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## How Italy Rocked Rates And What To Watch For Next

Italian political drama already had an impressive impact on US interest rates last week. This week brought more surprises and even bigger reactions for better and worse (and in that order).

Last week's newsletter contains a fairly detailed discussion on the Italy effect. It's **worth revisiting** if you have a moment. If not, here's the gist: investors are concerned that the new political coalition in Italy will push the country toward a Brexit-style EU departure. For financial markets, this creates several risks and a lot of uncertainty. Investors respond by moving money into safer havens like the US bond market. More demand for bonds = lower rates.

The holiday-shortened week began with developments in Italy that sent shockwaves through financial markets. The Italian President (who vets government nominees despite a mostly ceremonial role) vetoed the nomination of Paolo Savona for the post of Finance Minister. Savona is an outspoken critic of Italy's membership in the EU, and his nomination was a **major concern** for financial markets.

With Savona being blocked, it was fair to expect that rates would **RISE**. After all, it's the fear of Italian politicians pushing the country out of the EU that helped rates fall in the first place. Paradoxically, rates **FELL** sharply.

But why?

In Italy, if the majority party can't "form a government" (by filling positions with vetted nominees), a new election is the next step. By vetoing Savona's nomination, the President ran the risk of sending Italy back to elections as early as July 29th. Pundits agreed that any such election would turn into a **Brexit-like battle** over Italy's Euro membership and give the current coalition even more power.

Simply put, the events in Italy created lots of new uncertainty and risk. In turn, interest rates surged **lower**.

**Things changed** on Wednesday with news that Italian politicians were trying to avoid sending the country back to elections. By Thursday, the coalition nominated a new Finance Minister. By Friday, he was confirmed by the President. The defusing of political risk pushed interest rates **quickly higher** in the 2nd half of the week, ultimately taking us back to last Friday's levels.

## National Average Mortgage Rates



	Rate	Change	Points
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### 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

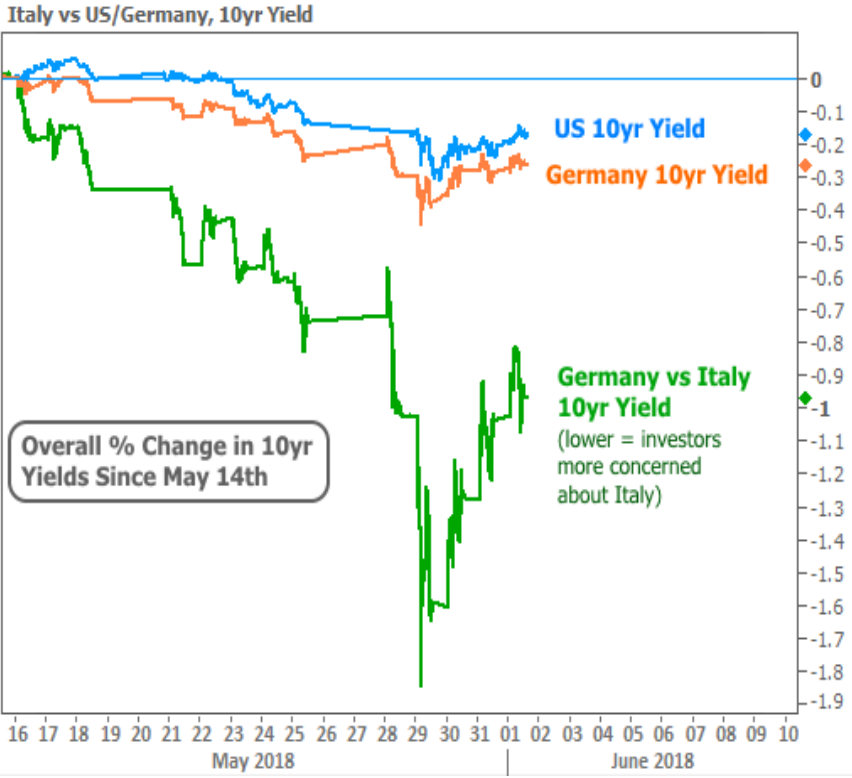
	Price / Yield	Change
MBS UMBS 5.5	99.46	+0.07
MBS GNMA 5.5	99.80	+0.02
10 YR Treasury	4.2291	-0.0234
30 YR Treasury	4.4547	-0.0178

Pricing as of: 7/23 1:00PM EST

## Recent Housing Data

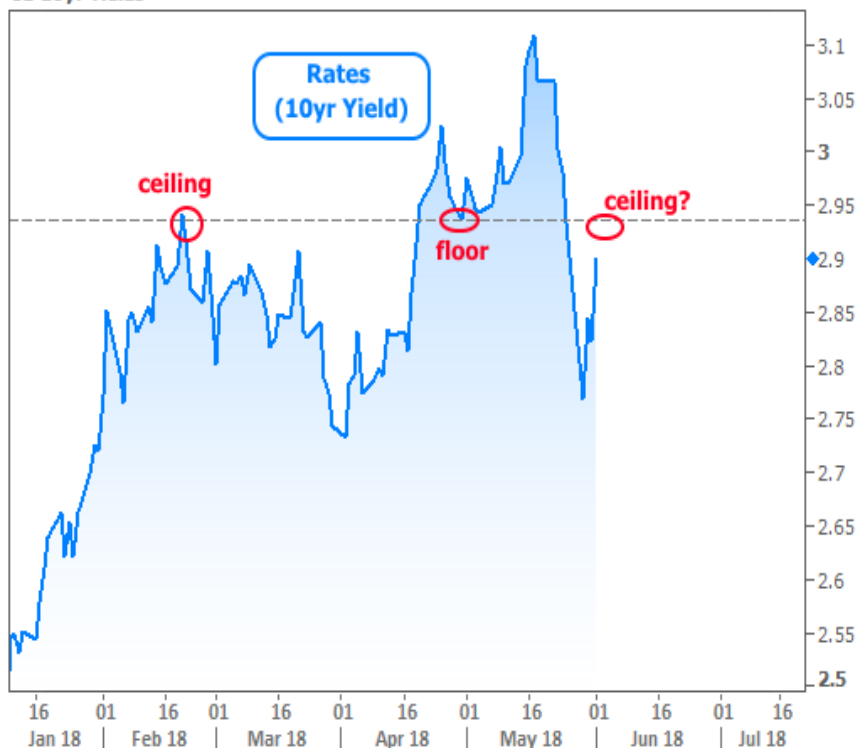
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

The following chart shows how much **more volatile** this week was compared to the last (and how much Italian drama is required for a given amount of movement in US interest rates!). The green line is the gap between Germany and Italy's 10yr government debt. The lower it goes, the more skeptical investors are about Italy being able to repay that debt. It's a direct reflection on the country's financial stability.



Focusing solely on rates in the US now, we can see Italy did us a big, temporary favor at the end of May. With rates apparently on the way back up, next week could bring a **showdown** with a key inflection point. This can be seen as **2.94%** in the following chart of 10yr Treasury yields (the benchmark for longer-term rates like mortgages). 2.94% acted as a ceiling on the way up in February and then as a floor on the way down last month. Whether rates bounce or break through, it would tell us a lot about how investors see the long-term rate outlook.

US 10yr Yields



Rates were a consideration for this week's housing data. The National Association of Realtors (NAR) released its Pending Home Sales report, which provides an early indication for the big Existing Home Sales report. The NAR said the economy is very healthy, but that higher rates and gas prices are adding to the biggest headwind: **supply**, which Chief Economist Lawrence Yun referred to as "**dire**."

The headwinds likely account for the slight downtrend seen in the following chart. Notably, sales are managing to hold respectably close to recent highs nonetheless.

## Pending Home Sales



Subscribe to my newsletter online at: <http://housingnewsletters.com/breton>

## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Tuesday, May 29</b>				
9:00AM	Mar CaseShiller 20 yy (%)	6.8	6.5	6.8
10:00AM	May Consumer confidence	128.0	128.0	128.7
<b>Wednesday, May 30</b>				
7:00AM	w/e Mortgage Refinance Index	970.7		1018.1
7:00AM	w/e MBA Purchase Index	242.7		247.4
8:15AM	May ADP National Employment (k)	178	190	204
8:30AM	Q1 GDP Prelim (%)	2.2	2.3	2.3
<b>Thursday, May 31</b>				
8:30AM	Apr Personal Income (%)	0.3	0.3	0.3
8:30AM	Apr Consumer Spending (Consumption) (%)	0.6	0.400	0.4
8:30AM	Apr Core PCE (y/y) (%)	1.8	1.800	1.9
8:30AM	w/e Jobless Claims (k)	221	225	234
9:45AM	May Chicago PMI	62.7	58.0	57.6
<b>Friday, Jun 01</b>				
8:30AM	May Non-farm payrolls (k)	223	188	164
10:00AM	May ISM Manufacturing PMI	58.7	58.1	57.3
<b>Monday, Jun 04</b>				

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
9:45AM	May ISM-New York index	782.5		779.3
10:00AM	Apr Factory orders mm (%)	-0.8	-0.5	1.6
<b>Tuesday, Jun 05</b>				
10:00AM	May ISM N-Mfg PMI	58.6	57.5	56.8
<b>Wednesday, Jun 06</b>				
7:00AM	w/e Mortgage Market Index	370.8		356.1
8:30AM	Q1 Labor Costs Revised (%)	2.9	2.8	2.7
8:30AM	Q1 Productivity Revised (%)	0.4	0.6	0.7
8:30AM	Apr International trade mm \$ (bl)	-46.2	-49.0	-49.0
<b>Thursday, Jun 07</b>				
8:30AM	w/e Jobless Claims (k)	222	221	221
<b>Friday, Jun 08</b>				
10:00AM	Apr Wholesale inventories mm (%)	0.1	0.0	0.0

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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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