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Mortgage Rates Jumped Over 7% This Week, Even if You Heard They Were 6.71%

Mortgage rates have been hovering in the high 6's for weeks, but they broke above 7% on Thursday. At the same time, multiple news outlets reported a 30yr fixed rate of 6.71%. Who's lying?

While the 6.71% news may be prolific, it is all traced back to one source: Freddie Mac's weekly rate survey. This is the longest-standing mortgage rate index in the US and the most widely cited. It does a great job of capturing general levels over the long run, but it doesn't necessarily line up with the reality in the trenches on any given day.

Here's the reality: 6.71% implies widespread availability of 6.625% and 6.75% (rates are most frequently offered in .125% increments, and 6.71% is an average). You could certainly get a rate of 6.625% if your scenario, credit, and down-payment were ideal, but at the average lender, you'd be paying a bit more upfront.

In other words, you'd be paying "points" in some form or another. Freddie's survey used to collect information on points. It no longer does. That means a loan at 6.625% with 1 point is counted the same as a loan at 6.625% and no points. But those two loans are not the same. In fact, a point is worth roughly 0.50% in rate! So the "no point" equivalent of 6.625% is actually 7.125%.

The other complicating factor is that Freddie reports the average rate over the preceding 5 business days. In this week's case, rates were in the process of jumping on Thursday--a day that won't be reflected in Freddie's numbers until next week.

With all that in mind, it's less of a surprise to consider that MND's rate index (which accounts for points) jumped back over 7% on Thursday and has been running slightly higher in general.

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.58	+0.48
10 YR Treasury	4.9278	-0.1158
30 YR Treasury	5.3141	-0.0921

Pricing as of: 11/20 4:02PM 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%

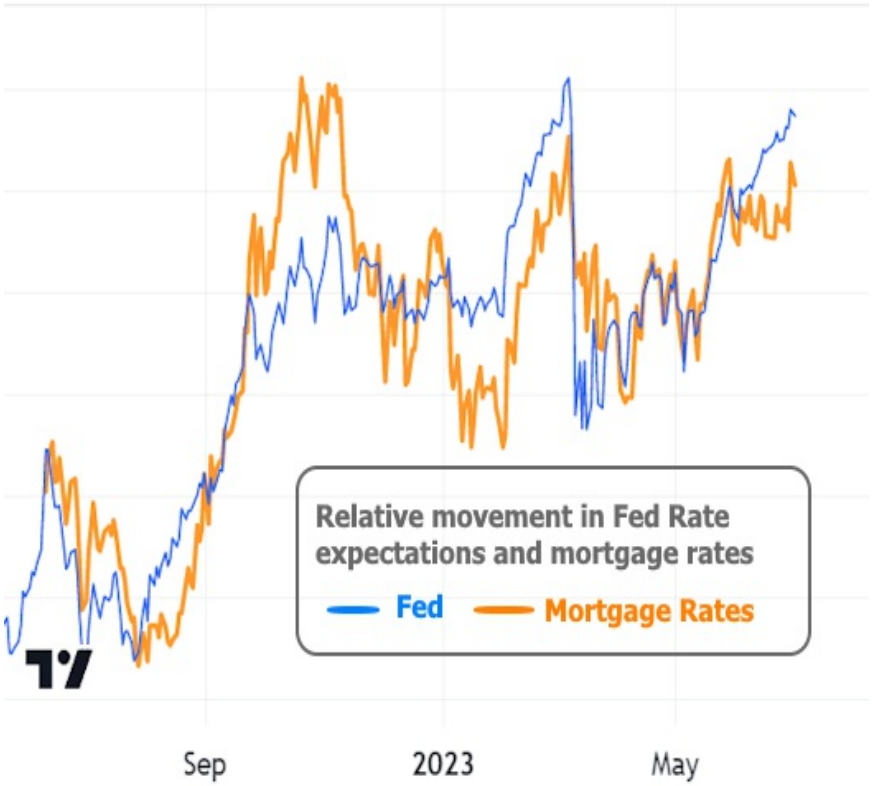
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Thursday's jump was driven by data. Both GDP and Jobless Claims data turned out to be stronger than expected. Strong data tends to push rates higher--especially at present when market participants know that economic resilience means a resumption of rate hikes from the Fed. The Fed doesn't set mortgage rates directly, but expectations for future hikes correlate with mortgage rate movement.



And here's a closer look at how Fed rate expectations evolved this week:

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We can get more perspective on recent rate movement by examining 10yr Treasury yields, which tend to move much like mortgage rates. Last week, we examined a 10yr yield range between 3.72 and 3.84%. This has been a mostly boring sideways grind as the market waits for data like Thursday's. Interestingly enough, Thursday just barely resulted in a challenge to the ceiling, and yields were back in the range by Friday.



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What's the significance? It simply speaks the indecision that continues plaguing the rate market. This range is a drop in the bigger picture bucket. It will take much bigger moves driven by much more data to create meaningful change in the rate landscape.

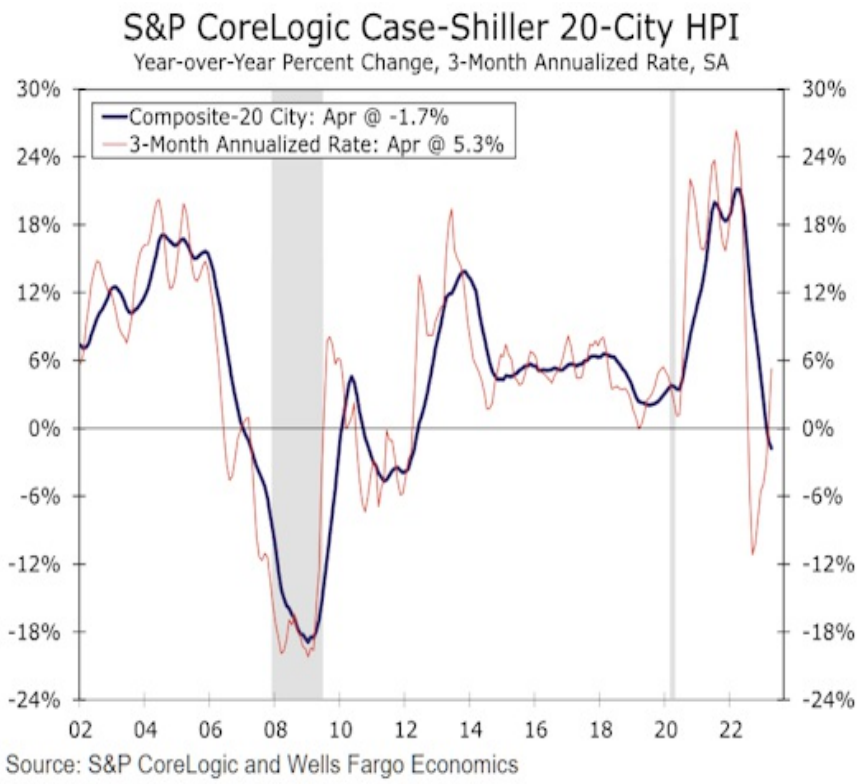


In this week's housing-related data, home prices defied expectations with FHFA's index rising 0.7% in April. Case Shiller's index was expected to fall 2.6%, but fell only 1.7% over the same time (it is more volatile than FHFA).

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New Home Sales came in much higher than expected, and have generally been the saving grace for home sales data as high rates keep homeowners reluctant to give up the low rates on their existing homes.



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Recent Economic Data

Event Importance:

No Stars = Insignificant

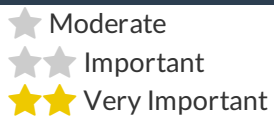
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Date	Event	Actual	Forecast	Prior
Tuesday, Jun 27				
8:30AM	May Durable goods (%)	1.7%	-1%	1.2%
9:00AM	Apr FHFA Home Price Index m/m (%)	0.7%	0.3%	0.5%
9:00AM	Apr FHFA Home Prices y/y (%)	3.1%	3.1%	3.7%
9:00AM	Apr Case Shiller Home Prices-20 y/y (%)	-1.7%	-2.6%	-1.1%
10:00AM	Jun Consumer Confidence (%)	109.7	104	102.5
10:00AM	May New Home Sales (ml)	0.763M	0.675M	0.68M
Thursday, Jun 29				
8:30AM	Jun/24 Jobless Claims (k)	239K	265K	265K
8:30AM	Q1 GDP sales Final (%)	4.2%	3.5%	1.1%
10:00AM	May Pending Home Sales (%)	-2.7%	-0.5%	-0.4%
Friday, Jun 30				
8:30AM	May Core PCE Inflation (y/y) (%)	4.6%	4.7%	4.7%
8:30AM	May Core PCE (m/m) (%)	0.3%	0.3%	0.4%
9:45AM	Jun Chicago PMI	41.5	44	40.4
10:00AM	Jun Consumer Sentiment (ip)	64.4	63.9	59.2
10:00AM	Jun Sentiment: 1y Inflation (%)	3.3%		4.2%
10:00AM	Jun Sentiment: 5y Inflation (%)	3%		3.1%
10:00AM	Jun U Mich conditions	69	68	64.9
Monday, Jul 03				
10:00AM	Jun ISM Manufacturing PMI	46	47	46.9
Wednesday, Jul 05				
2:00PM	FOMC Minutes			
Thursday, Jul 06				
7:00AM	Jun/30 MBA Refi Index	421.3		439.2
7:00AM	Jun/30 MBA Purchase Index	162.4		170.3
8:15AM	Jun ADP jobs (k)	497K	228K	267K
8:30AM	Jul/01 Jobless Claims (k)	248K	245K	236K
9:45AM	Jun S&P Global Services PMI	54.4	54.1	54.9
10:00AM	Jun ISM N-Mfg PMI	53.9	51	50.3
10:00AM	May USA JOLTS Job Openings	9.8M	9.935M	10.32M
Friday, Jul 07				
8:30AM	Jun Unemployment rate mm (%)	3.6%	3.6%	3.7%
8:30AM	Jun Average earnings mm (%)	0.4%	0.3%	0.4%



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