US Housing Market Weekly

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Predicting Rising Rates is a Very Dangerous Game

Mortgage rates **plunged to 8-month lows** this week, defying most expectations. What's up with that?!

Interest rates, in general, have been falling for more than 30 years. Any time anything in financial markets moves in one direction for long enough, pundits, analysts, mavens, and armchair economists **can't help** but predict the end of the trend.

It goes something like this (we'll use the term "economist" as a catch-all for the list of pundits above):

1. Textbooks teach economists that inflation is bad for rates and that Fed money-printing is bad for inflation.
2. Economists subsequently predict hyperinflation due to Fed-money-printing associated with the several iterations of "quantitative easing" (the programs whereby the Fed directly purchased Treasuries and Mortgage-Backed-Securities).
3. Combined with the fact that rates were already "too low," economists think it's clear that increasing inflation and the economic expansion can't help but result in rates moving higher

But economists have been **dead wrong time and time again**. This time around, it was supposed to be the Fed rate hike in December that finally confirmed the end of the 30+ year rate rally. I gave you a heads up on why you might not want to listen to them even before the Fed hiked. I also talked about the fact that rates could continue to do fairly well even after the Fed hike.

As it happens, rates have done much better than "fairly well." As economists have learned through trial and error, any time the outlook seems like a sure thing, something else tends to come along to **throw a wrench in the works**.

2016 has a growing list of "something else." At first, it was the major losses in stocks and oil. As investors sold stocks at a frantic pace, much of that money made its way into bond markets, **resulting in lower rates**. Just when it looked like the stock weakness and falling interest rates were leveling-off (discussed last week), another "something else" comes along—several somethings, actually.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.86%	-0.05	0.00
15 Yr. Fixed	6.31%	-0.02	0.00
30 Yr. FHA	6.32%	-0.06	0.00
30 Yr. Jumbo	7.04%	-0.03	0.00
5/1 ARM	6.53%	-0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.78%	-0.08	0.00
15 Yr. Fixed	6.07%	-0.09	0.00

Rates as of: 7/26

Market Data

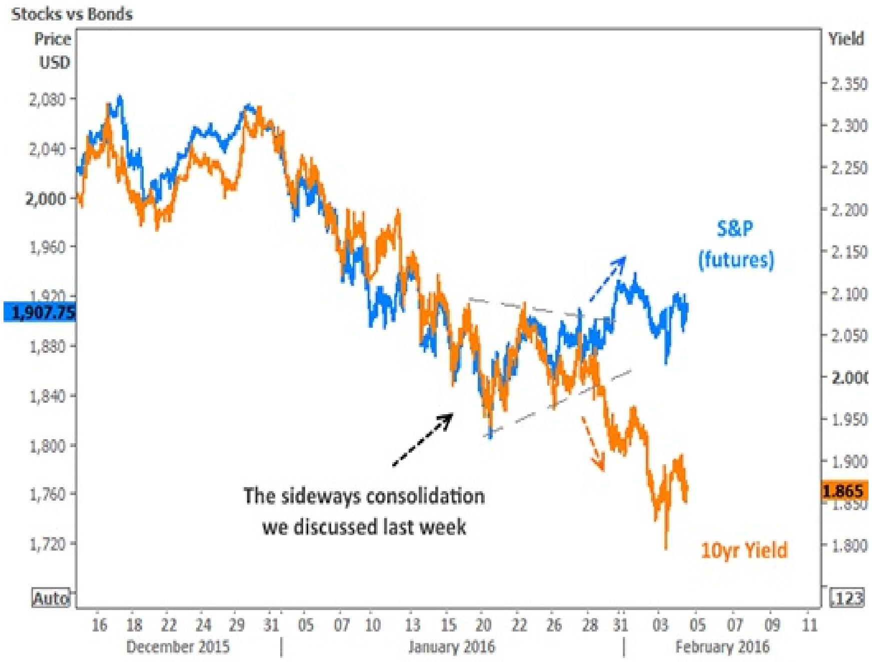
	Price / Yield	Change
MBS UMBS 5.5	99.66	-0.02
MBS GNMA 5.5	99.95	-0.03
10 YR Treasury	4.1904	-0.0054
30 YR Treasury	4.4467	-0.0056

Pricing as of: 7/28 8:02PM 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%

These **include**: weakening economic data (good for rates), promises of increased central bank accommodation from Europe, and a surprise rate cut from Japan's central bank. Central bank accommodation is generally good for BOTH stocks and rates, as we can see in the breakout from last week's sideways consolidation (10yr Treasury yield used as a proxy for mortgage rates):



Let's break this down a bit more, because it's a **big deal right now**. Europe and Japan are the 2 biggest central banks next to the Federal Reserve. If they're making money easier to get, it obviates some of the Fed's urgency to raise rates at home.

You may have heard the term **"currency wars."** It's not just some tinfoil hat conspiracy theory. Major global economies want their currency to be cheap enough for their exports to remain affordable around the world. If other countries are having the same feeling, there can be more than a little bit of competition to see who can devalue their currency enough to accomplish their goals.

Looking at this from the other side of the equation, the byproduct of the Fed hiking rates is **a STRONGER currency**. In other words, the Fed is moving the opposite direction of the other major central banks. This is taking a toll on corporate profits of US companies and has many folks questioning whether the Fed even needs to continue hiking rates.

That's a **scary prospect**. No one really knows what the implication would be because the Fed has always continued to hike rates fairly steadily after hiking from long-term lows. Scared investors buy bonds—especially when global central banks are pumping more money into the system. And bond buying = lower rates.

Housing-Specific News

Construction spending numbers were tepid. Although spending did improve month-over-month, it was only by 0.1 percent—falling well short of expectations. On a brighter note, home prices continue improving, with CoreLogic seeing annual appreciation rise above 6 percent. Unsurprisingly, more equity means more **cash-out refinances** as well as more questions about affordability—both of which were discussed in Black Knight's Mortgage Monitor.

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Recent Economic Data

Event Importance:

Date	Event	Actual	Forecast	Prior
Monday, Feb 01				
8:30AM	Dec Core PCE price index mm (%)	0.0	0.1	0.1
8:30AM	Dec Personal consump real mm (%)	+0.1		0.3
10:00AM	Jan ISM Manufacturing PMI	48.2	48.1	48.0
10:00AM	Dec Construction spending (%)	+0.1	0.6	-0.4
Wednesday, Feb 03				
7:00AM	w/e Mortgage Refinance Index	1827.6		1822.5
7:00AM	w/e MBA Purchase Index	221.1		237.8
8:15AM	Jan ADP National Employment (k)	205.0	195	257
10:00AM	Jan ISM N-Mfg PMI	53.5	55.1	55.8
Thursday, Feb 04				
8:30AM	w/e Continued jobless claims (ml)	2.255	2.250	2.268
8:30AM	w/e Initial Jobless Claims (k)	285	280	278
Friday, Feb 05				
8:30AM	Jan Unemployment rate mm (%)	4.9	5.0	5.0
8:30AM	Jan Non-farm payrolls (k)	+151	190	292
Friday, Feb 12				
8:30AM	Jan Import prices mm (%)	-1.1	-1.4	-1.2
8:30AM	Jan Retail sales mm (%)	+0.2	0.1	-0.1
8:30AM	Jan Export prices mm (%)	-0.8	-0.9	-1.1
Wednesday, Apr 13				
1:00PM	10-yr Note Auction (bl)	20		
Thursday, Apr 14				
1:00PM	30-Yr Bond Auction (bl)	12		

No Stars = Insignificant
Low
Moderate
Important
Very Important

Because Integrity Matters™

Jeffrey has spent the last three decades perfecting an Honest, Open and Transparent (HOT™) loan and closing process that is laser-focused on enhancing the consumer mortgage experience. By combining old-school, trustworthy customer service with real-time, mobile-friendly technology, he has successfully built thousands of loyal, raving fans.

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