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Fed Week Rate Volatility Had Nothing to do With The Fed

As far as the economic calendar suggested, the week's big to-do was Wednesday's Fed announcement. But the biggest market movement arrived **a day before**, and **didn't** line up with any conventional motivation. Even seasoned analysts agreed it was a relative "mystery move" that took rates to the highest levels in roughly 2 weeks.

Movement like this typically involves **a few common ingredients** that are always at play behind the scenes, but that have nothing to do with economic data, news headlines, or Fed policy. These include things like imbalances in trading positions, automated trading programs designed to protect traders from unexpected movement (aka "stop-losses"), and trades required as a part of a transaction in another part of the market (which we'll discuss in more detail below). All were seen on Tuesday.

A relative **imbalance** in trading positions set the stage for the quick move. Specifically, more bond traders were betting on rates continuing to move **lower** after the last rate spike was averted in early July. That means more traders had those defensive stop-losses in place in the event something came along to push rates higher.

This process began with European bond yields moving higher overnight. This was the **spark that set the dry tinder ablaze**. US rates didn't rise as quickly as European rates at first, but it was enough for those defensive stop-losses kick in, thus adding to the upward momentum. Traders looked to other traders for cues. Several big trades appeared on widely-followed reporting systems, leading other traders to follow suit, pressuring rates higher still.

Think of this like a **massive traffic jam** where cars begin turning around and heading the other direction. Those bigger trades would be like someone rolling down their window and saying "hey pal... I was just at the front of the line and there's a big accident. They said it would take 4 hours to get traffic moving." As you can imagine, only the people that absolutely couldn't take any other road would remain in position.

With the benefit of hindsight, we'd also come to suspect the corporate bond market played a role in Tuesday's weakness. Big corporate bond deals often involve the selling of US Treasuries (which pushes rates higher) in advance of the corporate bond's official launch. When AT&T launched a **gigantic $22bln bond deal** on Thursday, it helped explain some of Tuesday's big trades (the financial firms that help big corporations structure and launch these deals

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.45%	-0.01	0.00
15YR Fixed	6.99%	+0.01	0.00
30YR FHA	7.05%	+0.01	0.00
30YR Jumbo	7.50%	0.00	0.00
7/6 SOFR	7.00%	-0.07	0.00
30YR VA	7.07%	+0.01	0.00

Rates as of: 11/19

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.36	+0.26
10 YR Treasury	4.9838	-0.0598
30 YR Treasury	5.3659	-0.0403

Pricing as of: 11/20 9:21AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

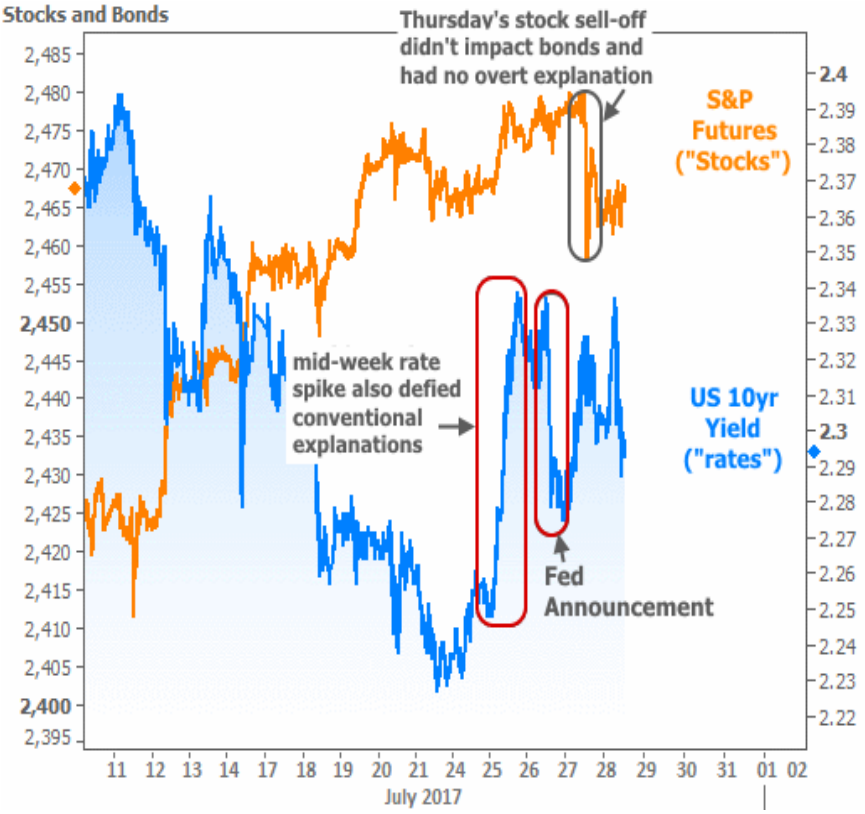
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can begin selling Treasuries several days in advance).

When all was said and done, Tuesday's volume and rate movement was the **biggest in more than 2 weeks**. In fact, even the Fed Announcement (which typically draws a good amount of volume regardless of its content) failed to get Wednesday's movement into the same league. This comparison can be seen in the following chart, and the absence of big moves in the stock market during the same time suggests we were indeed dealing with bond-market-specific considerations. The improvement after the Fed had more to do with Tuesday's momentum having run out of steam (the Fed said nothing new or surprising).

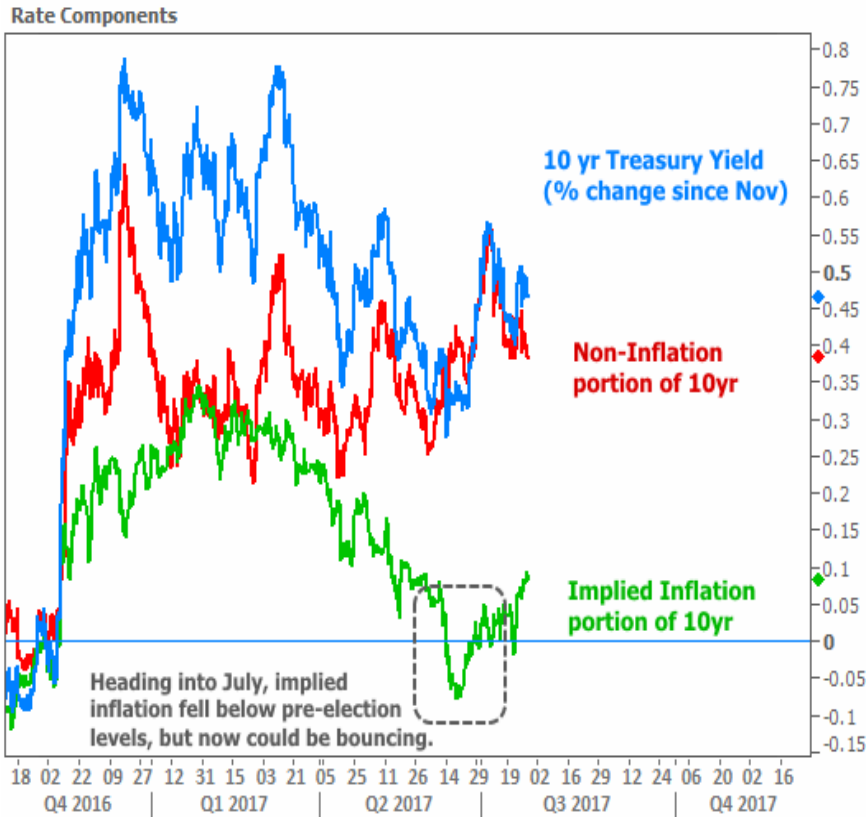


This **complicates the bigger picture** for rates. While we could take heart in the fact that rates did a good job of holding just under Tuesday's ceiling for the rest of the week, we'd also have to acknowledge the "higher lows" throughout the week. If we break rates into their inflation and non-inflation components, we can see that recent resilience has been made possible by falling inflation in 2017. If inflation metrics continue to recover (green line in the following chart), rates will remain under pressure.

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While higher rates might help cool off the record run in home prices, they wouldn't do any favors to home sales numbers. Both New and Existing Home Sales figures were released this week, and **both fell short** of expectations. That said, we're not talking about any major shifts here. Plus, **low inventories deserve** as much of the blame as anything, according the the National Association of Realtors (NAR). Freddie Mac's monthly outlook delved deeper into the inventory issue for newly constructed homes, citing increased development costs and a lack of skilled labor.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jul 24				
10:00AM	Jun Existing home sales (ml)	5.52	5.58	5.62
10:00AM	Jun Exist. home sales % chg (%)	-1.8	-1.0	1.1
Tuesday, Jul 25				
9:00AM	May CaseShiller 20 yy (%)	+5.7	5.8	5.7
10:00AM	Jul Consumer confidence	121.1	116.5	118.9
Wednesday, Jul 26				
7:00AM	w/e Mortgage Market Index	418.5		416.7
7:00AM	w/e MBA Purchase Index	240.1		245.5
7:00AM	w/e Mortgage Refinance Index	1414.3		1367.8
10:00AM	Jun New home sales-units mm (ml)	0.610	0.615	0.610
10:00AM	Jun New home sales chg mm (%)	+0.8	1.4	2.9

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
1:00PM	5-Yr Note Auction (bl)	34		
2:00PM	N/A FOMC rate decision (%)	1.00-1.25	1.125	1.125
Thursday, Jul 27				
8:30AM	Jun Durable goods (%)	+6.5	3.0	-0.8
8:30AM	w/e Initial Jobless Claims (k)	244	244	233
1:00PM	7-Yr Note Auction (bl)	28		
Friday, Jul 28				
8:30AM	Q2 GDP Advance (%)	+2.6	2.6	1.4
10:00AM	Jul U Mich Sentiment Final (ip)	93.4	93.1	93.1
Monday, Jul 31				
9:45AM	Jul Chicago PMI	58.9	60.0	65.7
10:00AM	Jun Pending sales change mm (%)	+1.5	0.7	-0.8
10:00AM	Jun Pending homes index	110.2		108.5
Tuesday, Aug 01				
8:30AM	Jun Personal consump real mm (%)	0.0		0.1
8:30AM	Jun Personal income mm (%)	0.0	0.4	0.4
8:30AM	Jun PCE price index mm (%)	0.0		-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	Jun Construction spending (%)	-1.3	0.4	0.0
Wednesday, Aug 02				
7:00AM	w/e Mortgage Market Index	406.6		418.5
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				
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	Jul Average earnings mm (%)	+0.3	0.3	0.2

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