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Do Interest Rates Really Care About Trump Tweets?

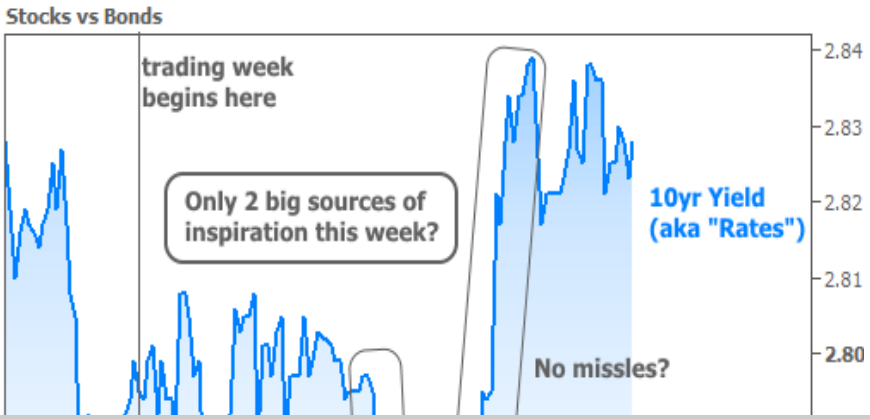
Do the President's tweets really move rates? Of course that's going to depend on what he says, so let's take a look at this week specifically. Tweets relating to **missiles, Syria, and Putin** played a central role in this week's market movement. At times, they seemed like the only way to explain interest rate volatility seen earlier in the week.

Before we continue, keep in mind that when we discuss "interest rate volatility" here, we do so with a **microscope**. Mortgage rates, especially, have been in a **very narrow** range for several months following the scary spike at the beginning of the year.

The following chart is going to **give away the answers** to today's questions, so allow me to sneak in a few thoughts to preface it before you move on. The top section contains only 10yr Treasury yields--the universal yard-stick for longer-term rates in the US (like mortgages). The encircled portions correspond to Trump's Syria tweets.

If you didn't catch these tweets, the first one was a response to Russia's warning that it would shoot down any missiles fired at Syria. In reference to said missiles, Trump tweeted "Get ready Russia, because they will be coming." To some extent, financial markets saw this increasing the odds of armed conflict with Russia (new military conflicts are typically bad for stocks and good for bonds/rates). The second tweet basically moderated the tone of the first, and was widely credited for sparking the biggest rate spike of the week.

The 2nd and 3rd panes of the chart put the Tweets into context and will be discussed below.



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	99.34	+0.24
10 YR Treasury	4.9853	-0.0583
30 YR Treasury	5.3665	-0.0397

Pricing as of: 11/20 9:27AM EST

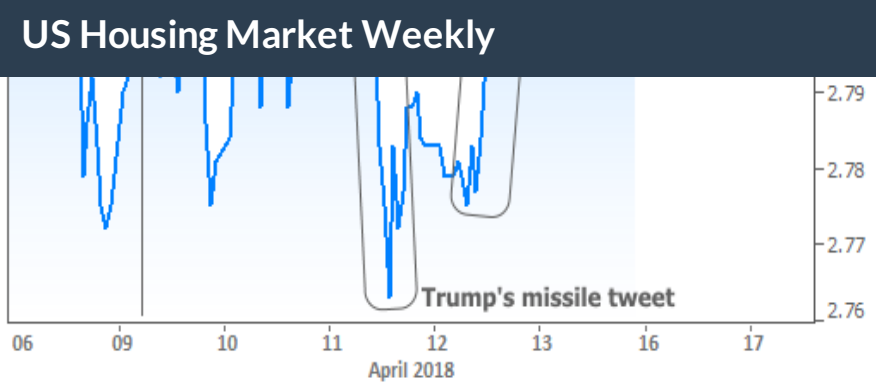
Recent Housing Data

		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%

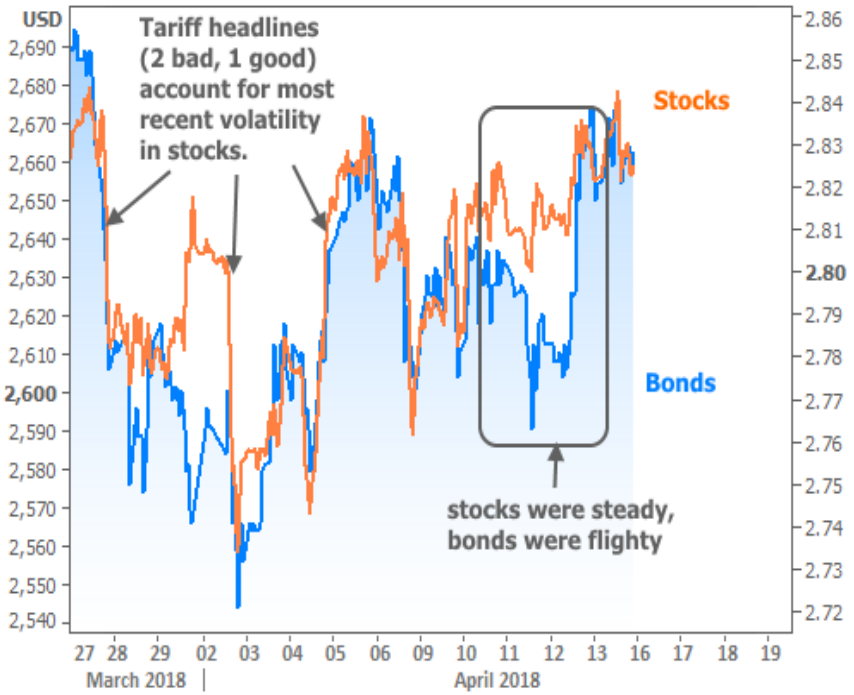
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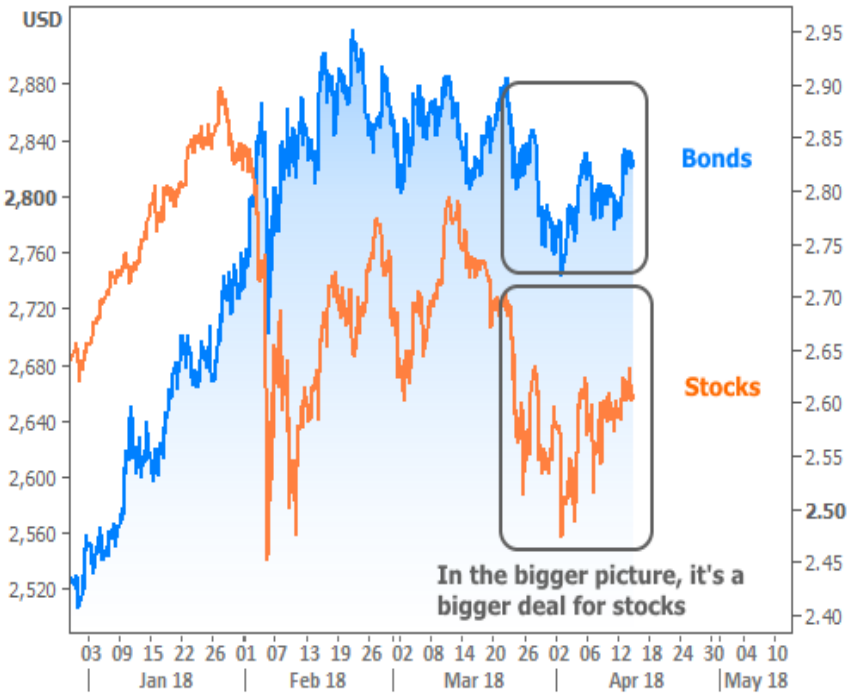
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Stocks vs Bonds



Stocks vs Bonds



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Long story short, bonds had a more volatile week than stocks on a **relative** basis (i.e. the blue line darts away from the orange line in the middle section of the chart, and then darts right back). That volatility had just as much--**if not more**--to do with this week's Treasury auction process and the unexpected trades stemming from last-minute retirement account funding (due to the tax deadline). The more we zoom out to the bigger picture, the more we see that tariff news trumps Trump's missile-related tweets. But if we keep zooming out, even tariffs can be trumped.

Notice in the bottom section of the previous chart that there's a big spike lower in stocks that wasn't highlighted. That was the most recent **'flash crash,'** and it continues to elude convenient explanations based on conventional cause and effect. In other words, there were no obvious reasons, big news headlines, or major economic developments to blame. It just sort of... happened.

Journalists, analysts, and even casual observers don't really like such serendipitous explanations, so you tend to see scapegoats like "high frequency trading" at the scene of flash crashy crimes. But if you're willing to join me in a more philosophical, larger-scale realm of market motivations, consider the following chart:



There's **too much to responsibly discuss** in a weekly newsletter when it comes to this chart, but I can give you the gist. Simply put: times are changing in terms of central banks stimulating financial markets (the QE "golden age" refers to multiple central banks pumping unprecedented amounts of cash into the financial system). On top of that, new fiscal policies are creating moving targets for stocks and rates. All we know is that those targets are higher than they were in the middle of 2017.

As we get closer to those targets (wherever they might be!), bigger bounces like February's flash crash are the moments where **whispers** of "are we there yet" **grow into shouts.** In February, those shouts were fleeting, but investors haven't quite relaxed. They understandably want to see how trade war risks and a hotly-anticipated earnings season play out before forgetting about that inquisitive little outburst and getting back to business.

To whatever extent the crowd calms down (strong earnings and moderation of trade-war/geopolitical risks would help), the implication is that rates and stocks would both be **more likely to continue higher** in coming weeks.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Apr 10				
8:30AM	Mar Core Producer Prices YY (%)	+2.7	2.6	2.5
8:30AM	Mar Producer Prices (%)	+0.3	0.1	0.2
10:00AM	Feb Wholesale inventories mm (%)	+1.0	0.9	1.1
10:00AM	Feb Wholesale sales mm (%)	+1.0	0.4	-1.1
1:00PM	3-Yr Note Auction (bl)	30		
Wednesday, Apr 11				
8:30AM	Mar Core CPI Year/Year (%)	+2.1	2.1	1.8
8:30AM	Mar CPI mm, sa (%)	-0.1	0.0	0.2
1:00PM	10-yr Note Auction (bl)	21		
2:00PM	FOMC Minutes			
Thursday, Apr 12				
8:30AM	Mar Import prices mm (%)	0.0	0.2	0.4
8:30AM	Mar Export prices mm (%)	+0.3	0.2	0.2
Friday, Apr 13				
10:00AM	Apr 5yr Inflation Outlook (%)	2.4		2.5
10:00AM	Apr 1yr Inflation Outlook (%)	+2.7		2.8
10:00AM	Apr Consumer Sentiment	97.8	100.5	101.4
Monday, Apr 16				
8:30AM	Mar Retail Sales (%)	0.6	0.4	-0.1
10:00AM	Apr NAHB housing market indx	69	70	70
10:00AM	Feb Business Inventories (%)	0.6	0.6	0.6
Tuesday, Apr 17				
8:30AM	Mar Building permits: number (ml)	1.354	1.323	1.321
8:30AM	Mar Build permits: change mm (%)	2.5		-4.1
8:30AM	Mar Housing starts number mm (ml)	1.319	1.262	1.236
8:30AM	Mar House starts mm: change (%)	1.9		-7.0
9:15AM	Mar Capacity Utilization (%)	78.0	77.9	77.7
9:15AM	Mar Industrial Production (%)	0.5	0.4	0.9
Wednesday, Apr 18				
7:00AM	w/e Mortgage Refinance Index	1149.5		1110.8
7:00AM	w/e MBA Purchase Index	262.4		247.3
Thursday, Apr 19				
8:30AM	Apr Philly Fed Business Index	23.2	20.1	22.3
10:00AM	Mar Leading index chg mm (%)	0.3	0.3	0.6

Event Importance:

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

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