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Plenty of Rate Volatility Despite Holiday-Shortened Week

This week got off to a late start as markets were closed on Monday for Memorial Day. Upon returning to the office, traders began pushing rates higher almost immediately.

It's often said that the bond market can experience elevated, seemingly random volatility amid the lighter trading participation seen on the days surrounding 3-day weekends. Tuesday may have been a good example as it brought the biggest move of the week despite an absence of high consequence data.

That's not to say that data was completely absent. Traders digested comments from several Fed speakers with the most memorable example coming from Minneapolis Fed's Kashkari who said he'd need to see "many" more months of good inflation data before the Fed would consider cutting rates. This is a departure from the average Fed speaker who uses words like "several" to discuss the same dependency.

In addition to Fed comments, there was a condensed schedule of Treasury auctions. These regularly scheduled auctions account for the "supply" side of supply and demand in the bond market. Higher supply means lower prices and higher rates, all other things being equal. In this case, the amount of supply is published well in advance, but the auction process provides a temperature check for investor demand. The relatively lower demand at this week's auctions also played a role in pushing rates higher in the first two days.

Things began to improve on Thursday--not only because auctions were over, but also due to rate-friendly revisions in the quarterly GDP data. Finally, Friday's PCE inflation data helped add momentum to Thursday's recovery.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00

Freddie Mac

30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Rates as of: 6/28

Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3980	+0.1111
30 YR Treasury	4.5640	+0.1383

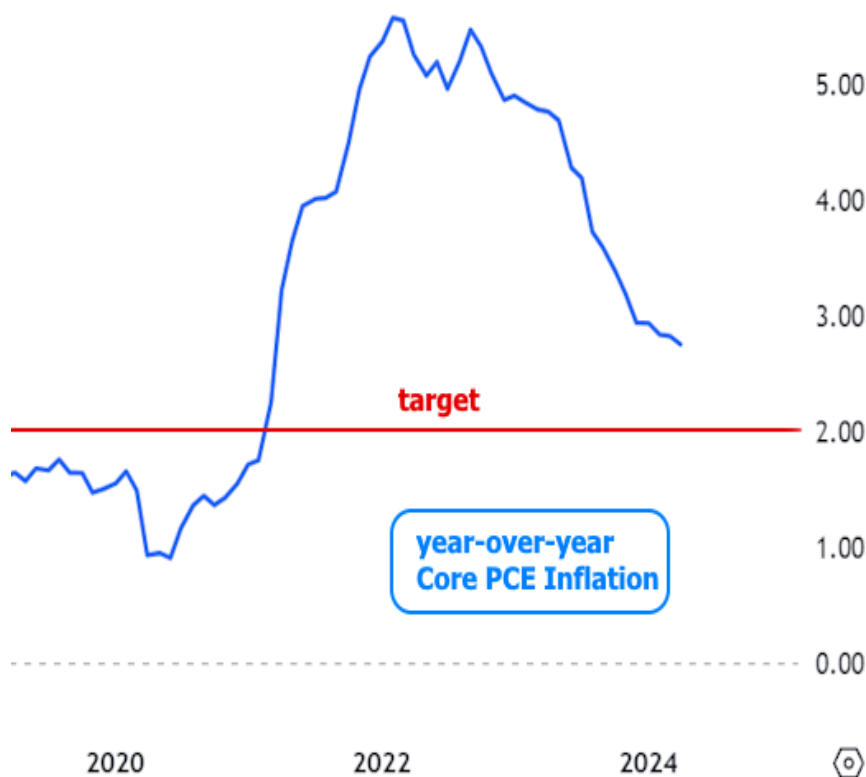
Pricing as of: 6/28 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
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%

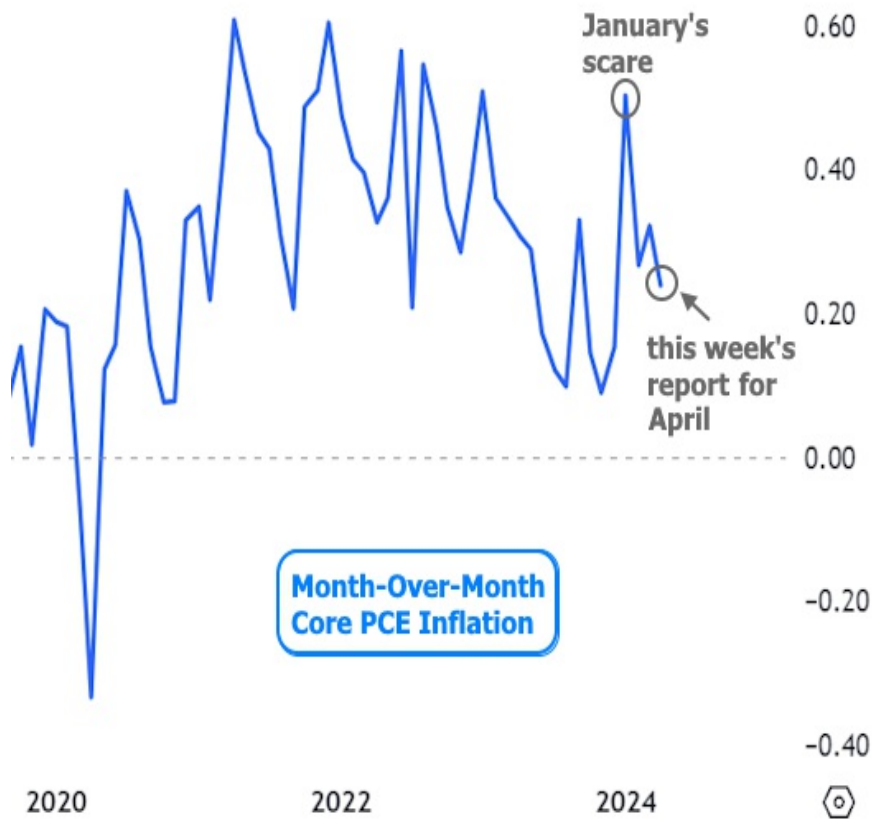


The PCE price index is similar to the Consumer Price Index (CPI). Both are official government measures of inflation. PCE is released 2 weeks after CPI. As such, it tends to produce less volatility, but the Fed actually prefers it to CPI when it comes to assessing the 2% inflation target.

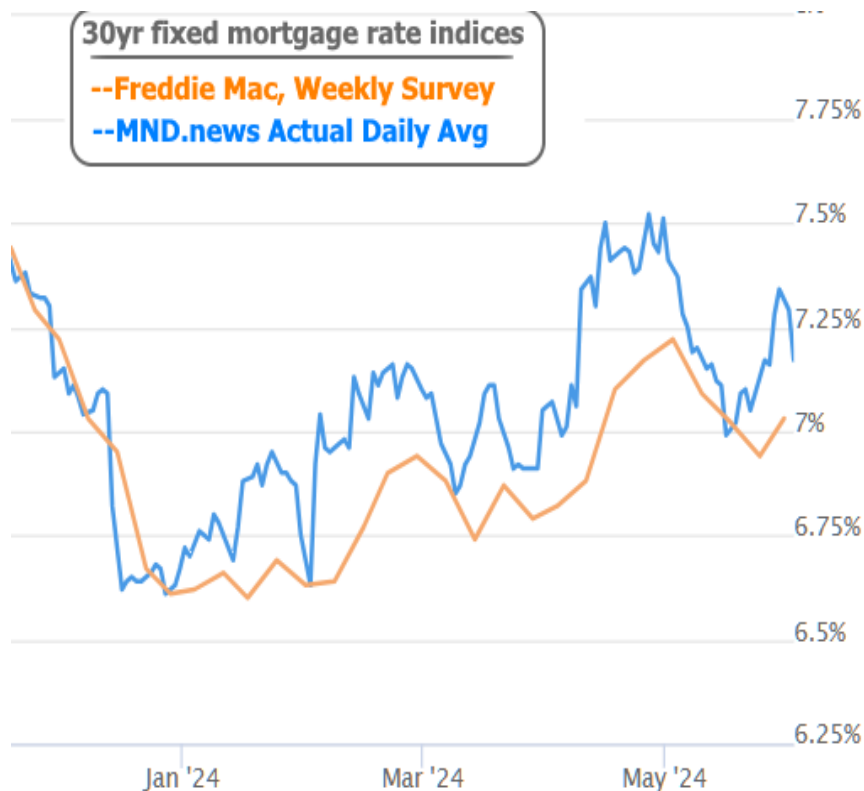


Clearly, progress toward the 2% target has slowed, but it is also technically continuing. When we look at the monthly version of the same data, we can see that the continuation wasn't necessarily a given based on how the numbers came out in the first quarter. January, specifically, was alarming. If January numbers were repeated for 12 months, the annual inflation level would be closer to 6% as opposed to just under 3%.

Feb/Mar reports were lower, but still suggested an annualized inflation level well over 3%. This week's data (for the month of April) is still nowhere near the lower readings seen last year, but it showed more progress in the right direction after January's scare.



Mortgage rates haven't calmed down as fast as the rest of the bond market. Mortgage rate volatility was even more elevated due to the structure of the underlying mortgage market causing some pricing overlap when rates move through levels ending in .125% or .625%. To simplify a very complicated explanation, there's very little difference between 7.125% and 7.25% as far as most lenders are concerned. As such, when rates move up past 7.125%, the next viable stop is 7.375%, even if the underlying market movement would normally only have pushed rates up to 7.25%.



The housing market continues expressing its lack of enjoyment of 7%+ mortgage rates. The most recent evidence was this week's Pending Home Sales Index from the National Association of Realtors.



In the week ahead, the potential volatility only increases as we'll get several top tier economic reports. Apart from Thursday, every day of the week has a scheduled report with the power to move markets by at least as much as any of this past week's data. Friday's jobs report is particularly potent, even if not quite in the same league as the Consumer Price Index (CPI) these days.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, May 28				
9:00AM	Mar FHFA Home Prices y/y (%)	6.7%		7%
9:00AM	Mar Case Shiller Home Prices-20 y/y (%)	7.4%	7.3%	7.3%
10:00AM	May CB Consumer Confidence (%)	102.0	95.9	97.0
11:30AM	2-Yr Note Auction (bl)	69		
1:00PM	5-Yr Note Auction (bl)	70		
Wednesday, May 29				
7:00AM	May/24 MBA Purchase Index	138.4		140.0
7:00AM	May/24 MBA Refi Index	463.8		536.9
1:00PM	7-Yr Note Auction (bl)	44		
Thursday, May 30				
8:30AM	Q1 Core PCE Prices QoQ Final	3.6%	3.7%	2%
8:30AM	Q1 GDP (%)	1.3%	1.3%	3.4%
8:30AM	Q1 GDP Final Sales (%)	1.7%		3.9%
8:30AM	Apr Wholesale inventories mm (%)	0.2%	-0.1%	-0.4%
10:00AM	Apr Pending Home Sales (%)	-7.7%	-0.6%	3.4%
Friday, May 31				
8:30AM	Apr Core PCE Inflation (y/y) (%)	2.8%	2.8%	2.8%
8:30AM	Apr Core PCE (m/m) (%)	0.2%	0.3%	0.3%
9:45AM	May Chicago PMI	35.4	41	37.9
Monday, Jun 03				
9:45AM	May S&P Global Manuf. PMI	51.3	50.9	50
10:00AM	May ISM Manufacturing PMI	48.7	49.6	49.2
Tuesday, Jun 04				
10:00AM	Apr USA JOLTS Job Openings	8.059M	8.34M	8.488M
10:00AM	Apr Factory orders mm (%)	0.7%	0.6%	1.6%
Wednesday, Jun 05				
8:15AM	May ADP jobs (k)	152K	175K	192K
9:45AM	May S&P Global Services PMI	54.8	54.8	51.3
10:00AM	May ISM N-Mfg PMI	53.8	50.8	49.4
Thursday, Jun 06				
8:30AM	Jun/01 Jobless Claims (k)	229K	220K	219K
Friday, Jun 07				
8:30AM	May Non Farm Payrolls	272K	185K	175K
8:30AM	May Unemployment rate mm (%)	4%	3.9%	3.9%
10:00AM	Apr Wholesale inventories mm (%)	0.1%	0.2%	-0.4%
3:00PM	Apr Consumer credit (bl)	\$6.4B	\$11B	\$6.27B

Event Importance:

- No Stars = Insignificant
-  Low
-  Moderate
-  Important
-  Very Important

Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the **ONLY** objection we ever hear is "your rates sound too good to be true". Well they're not, and here is why...

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It's simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It's just a lie that the big box mortgage companies have been telling you for years. Don't believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

Mike Baker

