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Most Serious Move Higher For Rates in Over a Year

Following last week's announcement from the European Central Bank, the **tone** in rates markets has **shifted**. This time around, it's less about the fear of a potential Fed hike and more about the risk that central banks won't be able to keep longer term rates low forever.

Right now, the **driving force** behind ultra-low long-term rates is central bank bond buying. Even in the US, despite the absence of an official quantitative easing (QE) program, the Fed continues reinvesting the money it receives each month from the mortgages it bought during the the 3 previous QE programs.

Europe and Japan's central banks are **still expanding** their balance sheets. That means they're **pumping new money** into the financial system. Currently, the primary vehicle for this money creation is the purchase of bonds (similar to the Fed's QE programs). This is great for mortgage rates because higher demand for bonds results in lower rates, and central banks are a HUGE source of demand!

But as of late last week, **investors began to worry** that Europe and Japan might be reaching an inflection point where their conversations shift from "should we buy even more bonds?" to "maybe we can get away with buying fewer bonds."

The catalysts were twofold, at least. **First of all**, European Central Bank President Mario Draghi avoided his typical level of reassurance regarding asset purchases and easy money. In separate news, Japanese officials expressed concerns over the efficacy of their central bank's easy money policies.

Speculation is increasing that both banks may run out of bonds to buy, ushering a shift from "monetary accommodation" (easy money from central banks) to "fiscal stimulus" (government programs intended to help their respective economies). The latter is bad for financial markets (including rates) in the short term, because it doesn't involve the creation of new money.

These bigger-picture considerations mean that this week's volatility in rates has much **less** to do with **Fed rate hike fears** (which had been a key consideration in recent weeks). In fact, rate hike expectations have **decreased**, even as 10yr Treasury yields (the best proxy for big-picture momentum in longer-term rates like mortgages) have risen.

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

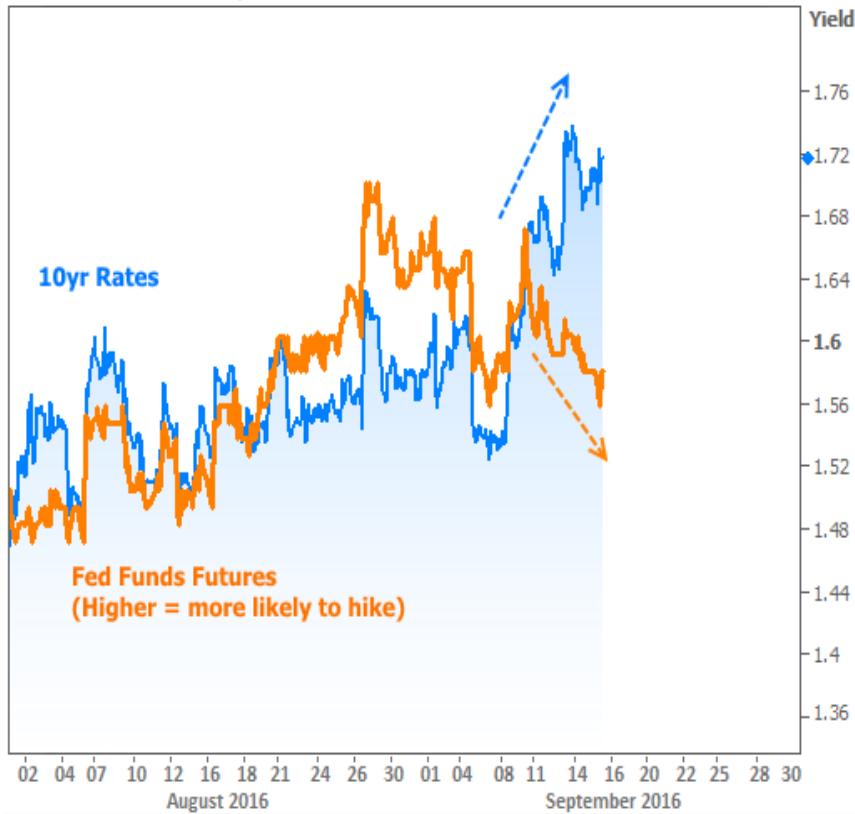
| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 6.0 | 99.98 | -0.19 |
| MBS GNMA 6.0 | 100.20 | -0.13 |
| 10 YR Treasury | 4.4737 | +0.0757 |
| 30 YR Treasury | 4.6393 | +0.0753 |

Pricing as of: 7/1 10:46AM EST

Recent Housing Data

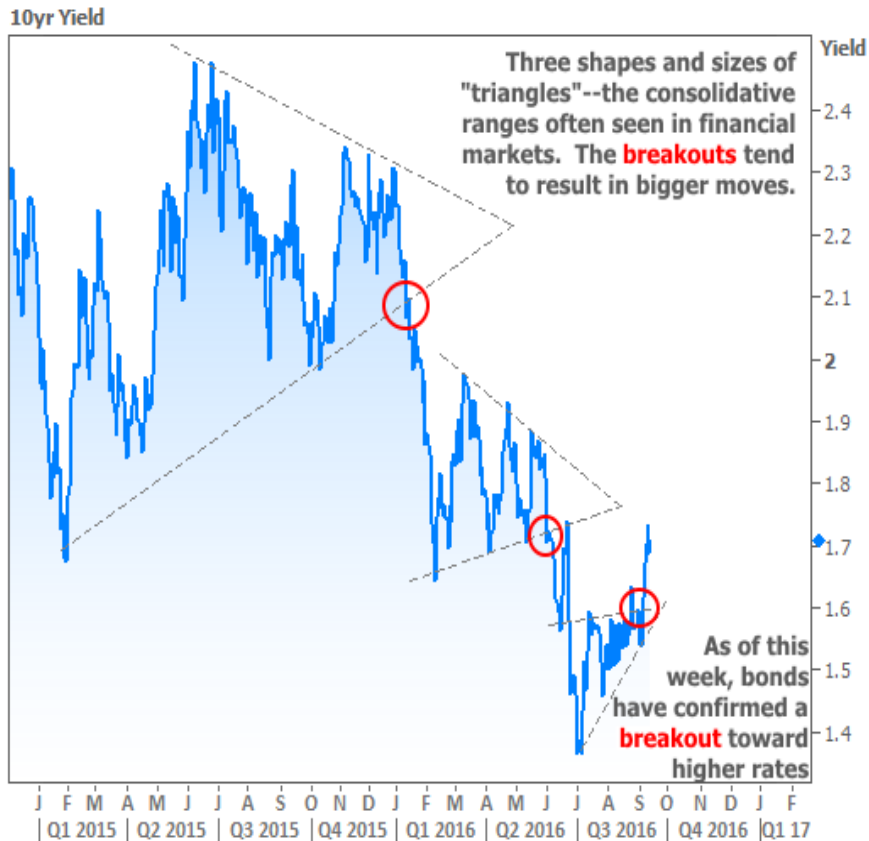
| | | Value | Change |
|---------------------|--------|-------|---------|
| Mortgage Apps | Jun 12 | 208.5 | +15.58% |
| Building Permits | Mar | 1.46M | -3.95% |
| Housing Starts | Mar | 1.32M | -13.15% |
| New Home Sales | Mar | 693K | +4.68% |
| Pending Home Sales | Feb | 75.6 | +1.75% |
| Existing Home Sales | Feb | 3.97M | -0.75% |
| Builder Confidence | Mar | 51 | +6.25% |

Fed Funds Futures vs 10yr Yield



The move in rates is serious. It fits a pattern that some market watchers refer to as a "triangle breakout." The term comes from the lines that can be drawn along the highs and lows of any chart. When those lines converge, prices or yields are consolidating--moving closer together. Such consolidations are often followed by more substantial moves, be they higher or lower.

The thinking is that markets are either finally making a decision after a period of indecisiveness, or simply that they've finally spent enough time finding their footing from the last major move that they're ready for the next one. **Unfortunately** for rates, the current triangle is being broken on the upper line.



There are **two great sources of perspective** though. First of all, consider the depth of the last "triangle breakout" earlier this year. Rates didn't cover too much ground before changing course. In other words, the fact that we're breaking toward higher rates doesn't mean rates have to go significantly higher. It merely identifies the current trend.

The other source of perspective is pretty simple, and it has to do with where we are in the **biggest of pictures**:

Mortgage Rates



Housing News and Economic Data

It was a light week for economic data until Thursday. Multiple reports were released with the most significant--**Retail Sales**--coming in at -0.3 versus a median forecast of -0.1. Odds for a Fed rate hike decreased further following the data, but that wasn't much consolation to mortgage rates, for the reasons discussed above.

In news off the beaten path, CoreLogic highlighted the the interesting phenomenon of **lower-FICO borrowers** increasingly moving away from urban areas.

Next week's **focal point** will be Wednesday's Federal Reserve Announcement. Again, the Fed is not expected to hike rates (although it is technically a possibility), but markets will be very interested to see what Yellen has to say in the press conference following the announcement. Also potentially significant are the updated economic projections from Fed members, released with the announcement at 2pm.

Subscribe to my newsletter online at: <http://housingnewsletters.com/rateshopkc>

Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|--------------------------|--------------------------|--------|----------|-------|
| Monday, Sep 12 | | | | |
| 1:00PM | 3-Yr Note Auction (bl) | 24 | | |
| Wednesday, Sep 14 | | | | |
| 8:30AM | Aug Import prices mm (%) | -0.2 | -0.1 | 0.1 |

Event Importance:

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

| Date | Event | Actual | Forecast | Prior |
|--------------------------|-----------------------------------|-----------|----------|-------|
| 8:30AM | Aug Export prices mm (%) | -0.8 | 0.1 | 0.2 |
| Thursday, Sep 15 | | | | |
| 8:30AM | Sep Philly Fed Business Index | 12.8 | 1.0 | 2.0 |
| 8:30AM | Aug Retail sales mm (%) | -0.3 | -0.1 | 0.0 |
| 8:30AM | Sep NY Fed manufacturing | -1.99 | -1.00 | -4.21 |
| 8:30AM | Aug Producer Prices (%) | 0.0 | 0.1 | -0.4 |
| 8:30AM | w/e Initial Jobless Claims (k) | 260 | 263 | 259 |
| 9:15AM | Aug Industrial output mm (%) | -0.4 | -0.3 | 0.7 |
| 9:15AM | Aug Capacity utilization mm (%) | 75.5 | 75.7 | 75.9 |
| 10:00AM | Jul Business inventories mm (%) | 0.0 | 0.1 | 0.2 |
| Friday, Sep 16 | | | | |
| 8:30AM | Aug CPI mm, sa (%) | +0.2 | 0.1 | 0.0 |
| 8:30AM | Aug Core CPI yy, nsa (%) | +2.3 | 2.2 | 2.2 |
| 10:00AM | Sep Consumer Sentiment Prelim | 89.8 | 90.8 | 89.8 |
| Monday, Sep 19 | | | | |
| 10:00AM | Sep NAHB housing market indx | 65 | 60 | 60 |
| Tuesday, Sep 20 | | | | |
| 8:30AM | Aug Housing starts number mm (ml) | 1.142 | 1.190 | 1.211 |
| 8:30AM | Aug Building permits: number (ml) | 1.139 | 1.170 | 1.144 |
| Wednesday, Sep 21 | | | | |
| 2:00PM | N/A FOMC rate decision (%) | 0.25-0.50 | 0.375 | 0.375 |
| Thursday, Sep 22 | | | | |
| 9:00AM | Jul Monthly Home Price mm (%) | 0.5 | | 0.2 |
| 10:00AM | Aug Existing home sales (ml) | 5.33 | 5.45 | 5.39 |
| Wednesday, Oct 12 | | | | |
| 1:00PM | 10-yr Note Auction (bl) | 20 | | |
| Thursday, Oct 13 | | | | |
| 1:00PM | 30-Yr Bond Auction (bl) | 12 | | |

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

