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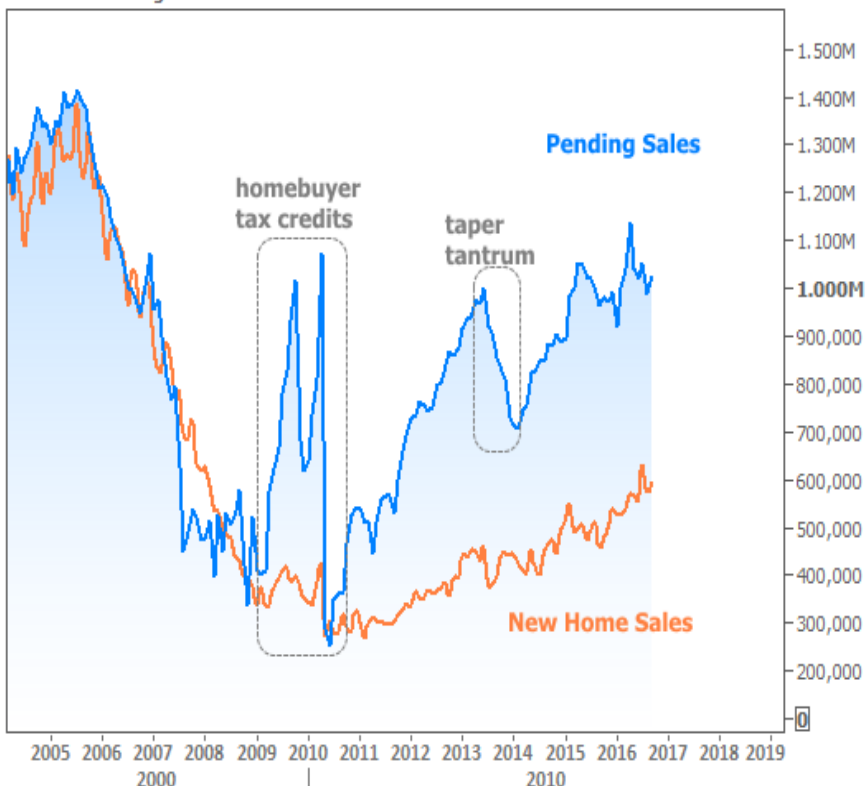
## Rising Rates Rain on Housing Data Parade

By no means has the housing market snapped back from the financial crisis with any sort of gusto. It's been a slow, steady slog in the right direction, with only occasional flashes of glory.

There were no such flashes in this week's housing data, but it was reasonably strong nonetheless. **New Home Sales** (which only measure newly-built homes) maintained a gentle upward trend in the bigger picture, despite a **revision** of last month's stellar reading, bringing it back in line with recent averages.

**Pending Home Sales** (which include purchase contracts on existing AND new homes) **also advanced**. The National Association of Realtors noted impressive resilience in buyer demand despite painfully low inventory.

New and Pending Home Sales



Tight inventory is often cited as a major driver of home price growth. [Separate reports](#) from Case Shiller and FHFA confirm the **upward trend in prices**. Case-Shiller pegs the annual rate of appreciation at 5.3% in its broader 20-city index, while the FHFA reports a loftier 6.4%.

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
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
<b>Freddie Mac</b>			
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	100.06	-0.11
MBS GNMA 6.0	100.23	-0.10
10 YR Treasury	4.4400	+0.0420
30 YR Treasury	4.5966	+0.0326

Pricing as of: 7/1 8:55AM 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%

**Inventory** conditions can't take all the credit for price gains. Naturally, the interest rate environment is a consideration. Many prospective homebuyers decide how much they can afford based on monthly payment, and this week's calculations will differ from last week's!

In other words, rates are higher. Relative to the narrower rate ranges seen in July and August, rates have been **sharply higher** over the past 2 months and are now reaching levels not seen since late May 2016.

Of course, on an outright basis, there's nothing **too troubling** about 30yr fixed mortgage rates in the upper-middle 3% range. If rates continue on their current path, however, it could quickly take the wind out of the housing market's sails, as can be seen in the "taper tantrum" section of the first chart.

A potential European version of the **taper tantrum** continues to be a hot topic and a key motivation for recently higher rates. The European Central Bank (ECB) confirmed it will address any potential changes to its current bond-buying program in early December. The 2013 taper tantrum began under similar circumstances in the US.

Granted, a European taper tantrum would have a **less direct** effect on rates in the US, but it would definitely have an effect. The correlation is readily apparent in the following chart of European vs US 10yr yields (the best proxy for trends in longer-term rates, like mortgages).

The chart includes the UK 10yr yield in addition to the European benchmark Germany ("benchmark" is like a "spokesperson" for a broader group. Germany is the biggest economy in the EU, so its bonds are the benchmark).

10yr Bond Yields



10yr Bond Yields



Volatile ebbs and flows surrounding Brexit have played an outsized role in the recent upward pressure on rates. In general, market participants bought bonds aggressively at the peak of Brexit panic (bond buying = lower rates), and have recently begun selling bonds quickly as the **British sky doesn't seem to be falling** (bond selling = higher rates). Just this week, a stronger-than-expected reading on Q3 GDP in the UK kicked the bond selling into high gear.

But the **bigger threat** remains the European taper tantrum. A stronger Britain only helps the case for Europe to pull back on bond purchases. Between now and December, rate volatility will only be limited to consistency of Europe's (and the UK's) economic data. The stronger and stabler the data is, the better the case becomes for European tapering.

Because this **isn't our first tapering rodeo**, the shock won't be as abrupt as it was in 2013 (if it happens), but it will result in higher rates regardless. Conversely, if Europe doubles down on its bond buying commitments, rates would likely catch a break, and erase a decent amount of recent losses.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Tuesday, Oct 25</b>				
9:00AM	Aug CaseShiller 20 mm SA (%)	+0.2	0.1	0.0
10:00AM	Oct Consumer confidence	98.6	101.0	104.1
<b>Wednesday, Oct 26</b>				
7:00AM	w/e Mortgage Market Index	492.0		512.9
10:00AM	Sep New home sales-units mm (ml)	0.593	0.600	0.609
1:00PM	5-Yr Note Auction (bl)	34		
<b>Thursday, Oct 27</b>				
8:30AM	Sep Durable goods (%)	-0.1	0.1	0.1
8:30AM	w/e Initial Jobless Claims (k)	258	260	260
10:00AM	Sep Pending homes index	110.0		108.5
1:00PM	7-Yr Note Auction (bl)	28		
<b>Friday, Oct 28</b>				
8:30AM	Q3 GDP Advance (%)	+2.9	2.5	1.4
<b>Monday, Oct 31</b>				
8:30AM	Sep Personal consump real mm (%)	+0.3		-0.1
8:30AM	Sep Personal income mm (%)	+0.3	0.4	0.2
8:30AM	Sep Core PCE price index mm (%)	+0.1	0.1	0.2
9:45AM	Oct Chicago PMI	50.6	54.0	54.2
<b>Tuesday, Nov 01</b>				
10:00AM	Oct ISM Manufacturing PMI	51.9	51.7	51.5
10:00AM	Sep Construction spending (%)	-0.4	0.5	-0.7
<b>Wednesday, Nov 02</b>				
8:15AM	Oct ADP National Employment (k)	147.0	165	154
9:45AM	Oct ISM-New York index	719.3		719.7
2:00PM	N/A FOMC rate decision (%)	0.25-0.50	0.375	0.375
<b>Thursday, Nov 03</b>				
10:00AM	Oct ISM N-Mfg Bus Act	57.7	59.7	60.3
10:00AM	Sep Factory orders mm (%)	+0.3	0.2	0.2

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
10:00AM	Oct ISM N-Mfg PMI	54.8	56.0	57.1
<b>Friday, Nov 04</b>				
8:30AM	Oct Non-farm payrolls (k)	+161	175	156
8:30AM	Oct Unemployment rate mm (%)	4.9	4.9	5.0

## 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.

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