



## Mike Baker

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## Market Reacts to Tariffs and New Fed Chair

There were two key considerations for financial markets this week: Fed Chair Jerome Powell's first congressional **testimony**, and the announcement of new **trade tariffs** by the White House. Both caused volatility for interest rates in the short term and raised questions for the future.

In [last week's newsletter](#), we examined recent stability in rates and laid out a line in the sand that they'd need to cross in order to "defeat" 2018's relentless uptrend. The **good news** is that they crossed that line! The bad news is that it came at a price.

Earlier in the week, it was **far from a given** that rates would defeat 2018's negative trend. Fed Chair Powell began his first round of congressional testimony on Tuesday morning at 10am. About 40 minutes later, he made a comment about his personal assessment of the economy being stronger than it had been in December.

Markets latched onto Powell's words and quickly began pricing-in higher odds of an additional Fed rate hike in 2018. Although the Fed Funds Rate only applies to overnight time frames, Fed rate hike **expectations** can have a direct impact on longer-term rates like 10yr Treasury yields and mortgages.

Fortunately, Fed rate hike expectations aren't the only consideration for longer-term rates. As can be seen in the following chart, 10yr Treasury yields (a benchmark for long-term rates) managed to move **lower** even as rate hike expectations held steady in the middle of the week. Rates continued even lower when the White House made its tariff announcement.

## National Average Mortgage Rates



|  | Rate | Change | Points |
|--|------|--------|--------|
|--|------|--------|--------|

### Mortgage News Daily

|              |       |              |      |
|--------------|-------|--------------|------|
| 30 Yr. Fixed | 7.07% | <b>+0.02</b> | 0.00 |
| 15 Yr. Fixed | 6.45% | <b>0.00</b>  | 0.00 |
| 30 Yr. FHA   | 6.51% | <b>+0.02</b> | 0.00 |
| 30 Yr. Jumbo | 7.26% | <b>0.00</b>  | 0.00 |
| 5/1 ARM      | 7.02% | <b>-0.01</b> | 0.00 |

### Freddie Mac

|              |       |              |      |
|--------------|-------|--------------|------|
| 30 Yr. Fixed | 6.86% | <b>-0.01</b> | 0.00 |
| 15 Yr. Fixed | 6.16% | <b>+0.03</b> | 0.00 |

Rates as of: 6/28

## Market Data

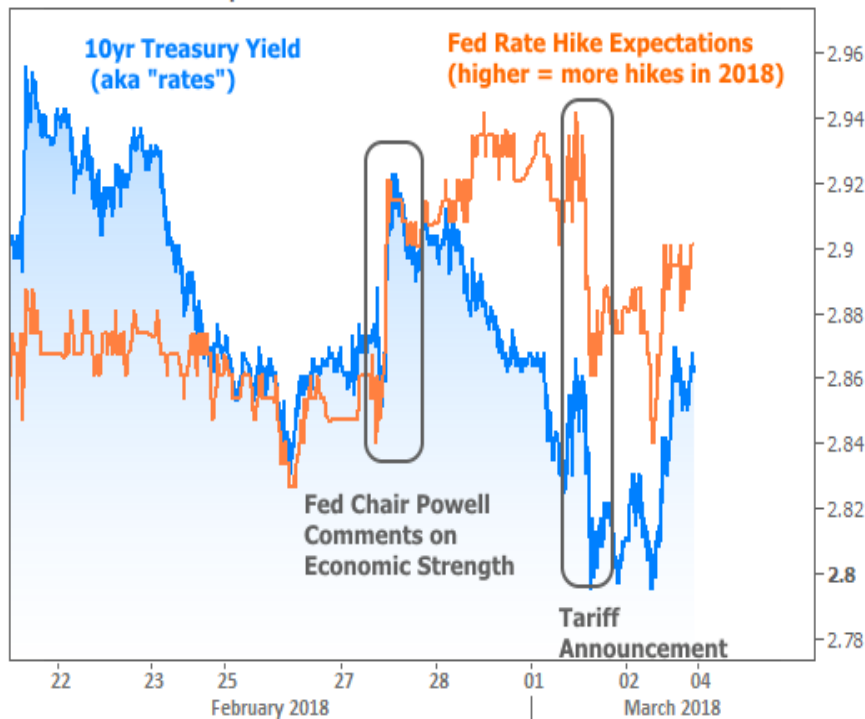
|                | Price / Yield | Change         |
|----------------|---------------|----------------|
| MBS UMBS 5.5   | 98.49         | <b>-0.45</b>   |
| MBS GNMA 5.5   | 99.10         | <b>-0.44</b>   |
| 10 YR Treasury | 4.4049        | <b>+0.0069</b> |
| 30 YR Treasury | 4.5659        | <b>+0.0019</b> |

Pricing as of: 7/1 4:48AM 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%  |

Rates and Rate Hike Expectations



The chart tells us that rates weren't too terribly surprised by Powell. True, rate hike expectations moved slightly higher, but the scaling of the chart overstates the size of the move. In objective terms, investors only saw the Fed Funds Rate **moving 0.04% higher** in 2018. A full rate hike is 0.25%.

The chart also tells us that **there's a limit** to how quickly longer-term rates are willing to fall in this environment. The tariff news caused an unexpected drop and rates weren't ready for that much of a good thing. 10yr yields bounced firmly on 3 separate occasions near 2.80% before moving right back up to previous levels. Bigger-picture headwinds for rates aren't going anywhere anytime soon, so any progress is more likely to look like cautious, sideways movement.

US 10yr Yield ("rates")

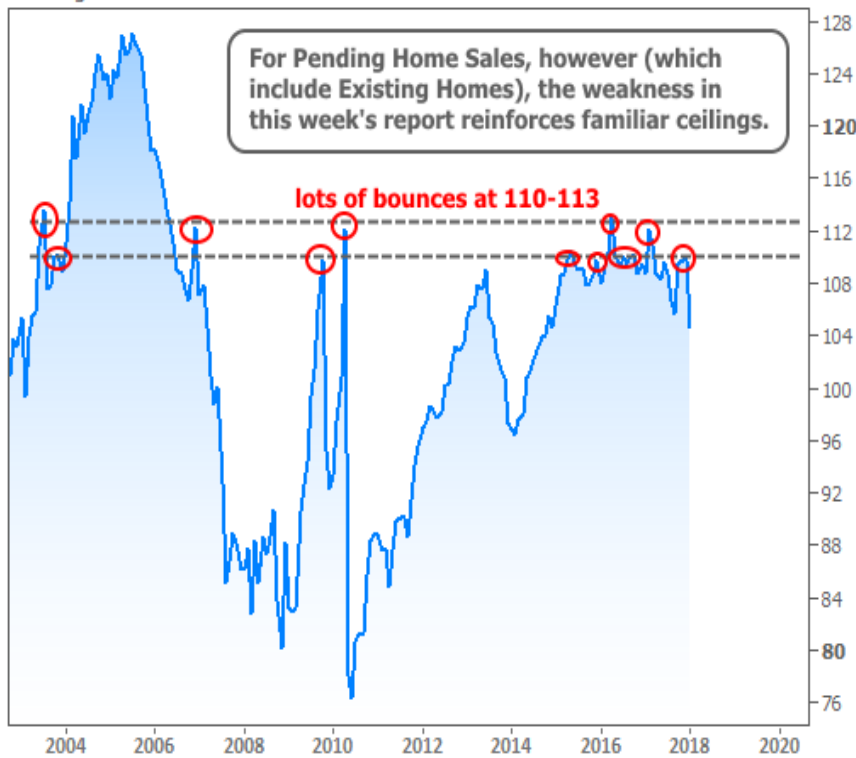


US 10yr Yield ("rates")



Although rates have been digging their heels in over the past few weeks, the broader move higher began to show up in **home sales** figures. Sales tend to **increase** briefly as rates first begin spiking (buyers motivated to get off a fence by the prospect of higher payments). From there, rates tend to create headwinds as long as they continue higher. In the current crop of data, this is most readily seen in the Pending Home Sales Index.

Pending Home Sales



Meanwhile, **new home sales** are still safely inside their broader trend of improvement.



Of course rates are far from the only input for home sales. As we discussed last week, **inventory** is an ongoing problem, as is affordability. The tariff news creates more uncertainty on that front. Tariffs could increase building costs and hinder the construction of affordable homes, according to Lawrence Yun, chief economist of the National Association of Realtors.

At the same time, the news caused a drop in the stock market as investors generally view it as **negative for the broader economy**. To whatever extent that negativity plays out, it could impact homebuyer attitudes by decreasing the "wealth effect" for any prospective homebuyers who own stocks.

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Recent Economic Data

| Date              | Event                         | Actual | Forecast | Prior |
|-------------------|-------------------------------|--------|----------|-------|
| Monday, Feb 26    |                               |        |          |       |
| 10:00AM           | Jan New home sales chg mm (%) | -7.8   | 3.8      | -9.3  |
| Tuesday, Feb 27   |                               |        |          |       |
| 8:30AM            | Jan Nondefense ex-air (%)     | -0.2   | 0.5      | -0.6  |
| 8:30AM            | Jan Durable goods (%)         |        | -2.5     | 2.8   |
| 9:00AM            | Nov CaseShiller 20 yy (%)     |        | 6.4      | 6.4   |
| 10:00AM           | Feb Consumer confidence       | 130.8  | 126.6    | 125.4 |
| Wednesday, Feb 28 |                               |        |          |       |
| 7:00AM            | w/e Mortgage Market Index     | 382.9  |          | 372.9 |
| 8:30AM            | Q4 GDP Prelim (%)             | 2.5    | 2.5      | 2.6   |
| 9:45AM            | Feb Chicago PMI               | 61.9   | 64.2     | 65.7  |

Event Importance:

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

| Date              | Event                                   | Actual | Forecast | Prior |
|-------------------|-----------------------------------------|--------|----------|-------|
| 10:00AM           | Jan Pending Home Sales (%)              | -4.7   | 0.3      | 0.5   |
| Thursday, Mar 01  |                                         |        |          |       |
| 8:30AM            | Jan PCE (y/y) (%)                       | 1.700  |          | 1.700 |
| 8:30AM            | Jan Consumer Spending (Consumption) (%) | 0.200  | 0.200    | 0.400 |
| 8:30AM            | Jan Personal Income (%)                 | 0.400  | 0.300    | 0.400 |
| 8:30AM            | Jan Core PCE (y/y) (%)                  | 1.500  | 1.500    | 1.500 |
| 10:00AM           | Feb ISM Manufacturing PMI               | 60.8   | 58.7     | 59.1  |
| 10:00AM           | Jan Construction spending (%)           | 0.0    | 0.3      | 0.7   |
| Friday, Mar 02    |                                         |        |          |       |
| 10:00AM           | Feb U Mich Sentiment Final (ip)         | 99.7   | 99.5     | 99.9  |
| Monday, Mar 05    |                                         |        |          |       |
| 10:00AM           | Feb ISM N-Mfg PMI                       | 59.5   | 59.0     | 59.9  |
| Tuesday, Mar 06   |                                         |        |          |       |
| 10:00AM           | Jan Factory orders mm (%)               | -1.4   | -1.3     | 1.7   |
| Wednesday, Mar 07 |                                         |        |          |       |
| 7:00AM            | w/e Mortgage Market Index               | 384.1  |          | 382.9 |
| 8:15AM            | Feb ADP National Employment (k)         | 235.0  | 195      | 234   |
| 8:30AM            | Jan International trade mm \$ (bl)      |        |          | -53.1 |
| 8:30AM            | Q4 Labor Costs Revised (%)              | 2.5    | 2.1      | 2.0   |
| 8:30AM            | Q4 Productivity Revised (%)             | 0.0    | -0.1     | -0.1  |
| Thursday, Mar 08  |                                         |        |          |       |
| 8:30AM            | w/e Jobless Claims (k)                  |        | 220      | 222   |
| Friday, Mar 09    |                                         |        |          |       |
| 8:30AM            | Feb Non-farm payrolls (k)               | +313   | 200      | 200   |
| 8:30AM            | Feb Unemployment rate mm (%)            | 4.1    | 4.0      | 4.1   |
| 10:00AM           | Jan Wholesale inventories mm (%)        | 0.8    | 0.7      | 0.7   |

## 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**

