

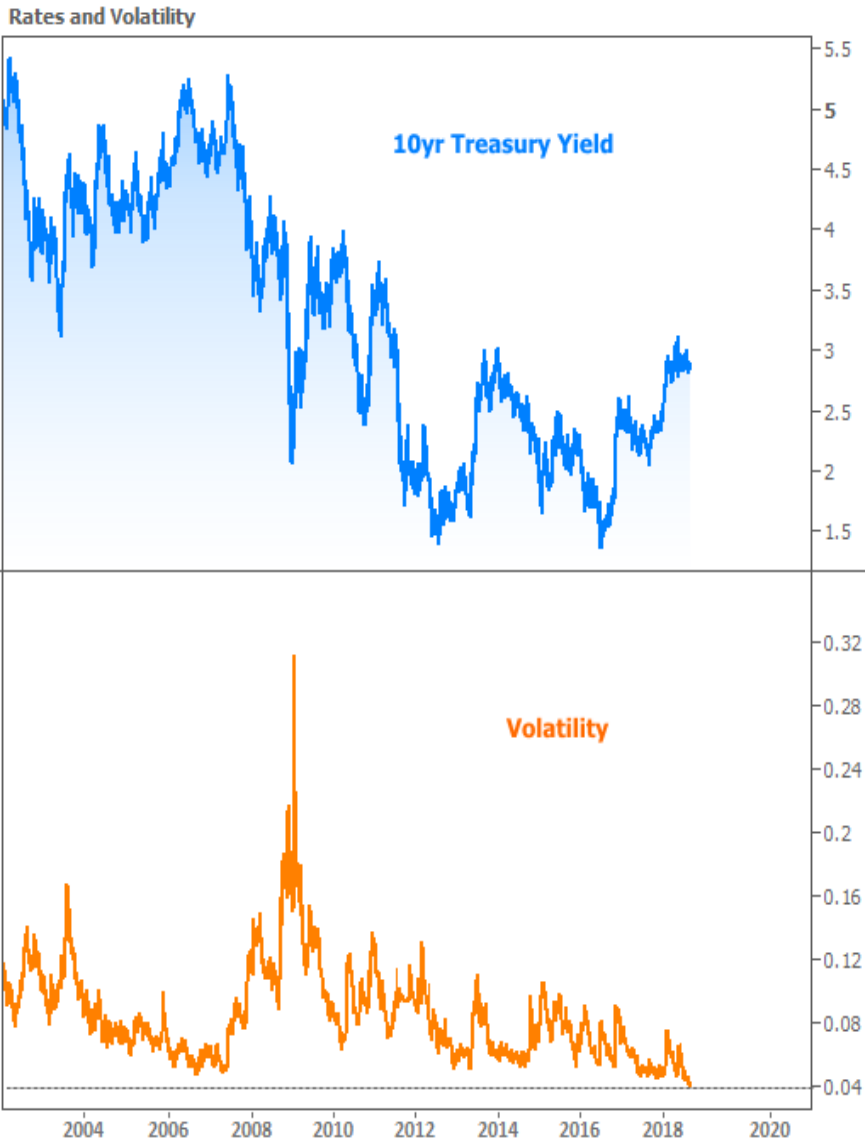


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Rate Volatility Lowest in Decades; Is Housing a Factor?

There are a few different ways to measure volatility in the bond market, but one of the simplest is via the average daily trading range. That particular metric is showing volatility in line with the **lowest** levels in decades.



The lower volatility goes, and the longer it stays low, the **more likely** we are to see a **big move** in rates. Many would argue that such a move would be toward **lower** rates, simply because we've spent so much time moving toward **higher**

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	4.4049	+0.0069
30 YR Treasury	4.5659	+0.0019

Pricing as of: 7/1 4:55AM EST

Recent Housing Data

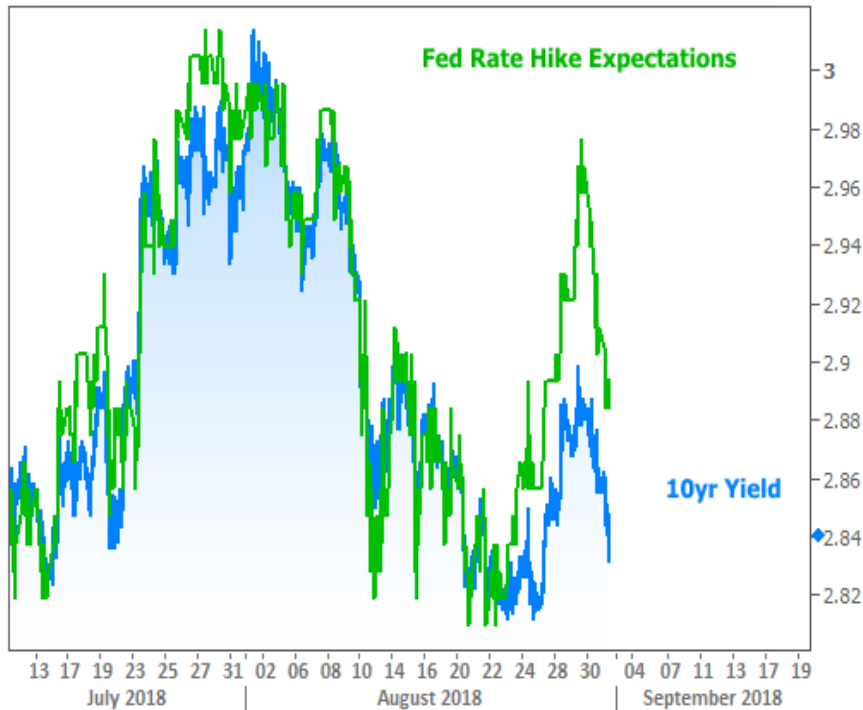
		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

rates during the past 2 years. There is actually plenty of historical support for that line of thinking, but there is also a catch.

The catch is that the sharp move higher in rates over the past 2 years is far from serendipitous. In fact, rates have good reasons for being where they are. Those reasons would need to **change before** we see low volatility give way to a big drop in rates, and that could take months.

One of the most obvious reasons for rate movement is the outlook for Fed rate hikes. Before you get mad at the Fed, understand that their policy outlook is largely dependent on inflation, unemployment, and financial stability. Those three things **also** affect longer-term rates (like mortgages).

In that sense, the Fed's outlook is merely exhibiting symptoms of the same disease. Nevertheless, the Fed has some **latitude** in how it interprets the raw data. If its interpretation results in more hikes, longer-term rates (which tend to be highly correlated with the Fed's rate hike expectations) would have a tough time moving lower.



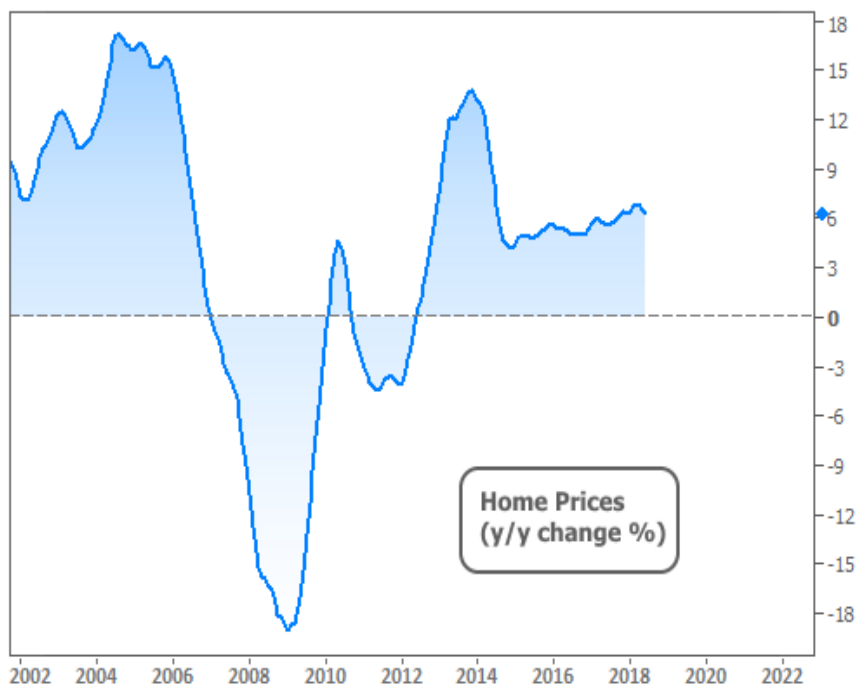
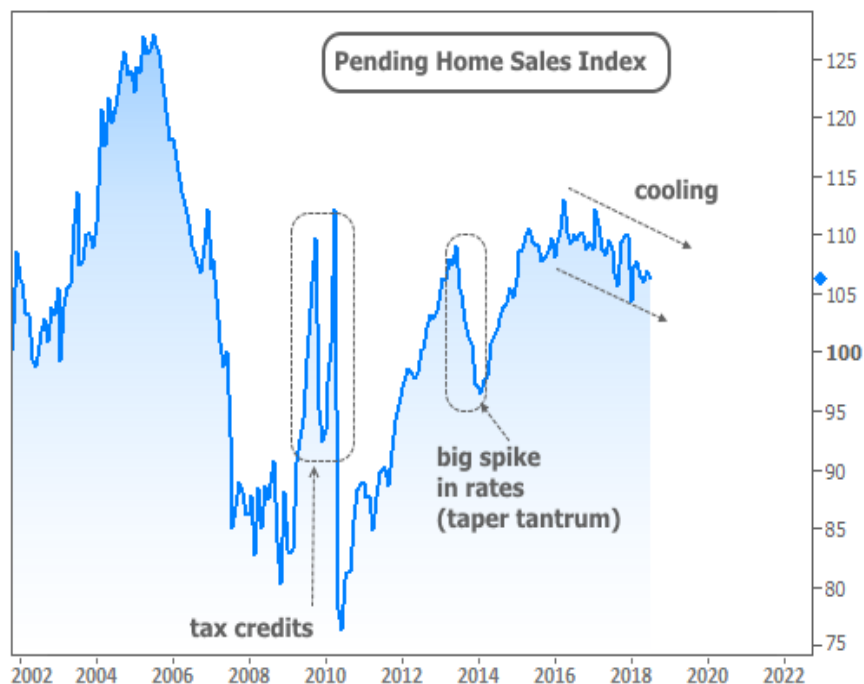
By that same rationale, if something happens to make the Fed second guess its stance, that's generally good for rates. As we learned last week, the **cooling of the housing market** is one such "something" on the Fed's radar. With that in mind, it wasn't too surprising to see some improvement in rates this week immediately following a weaker reading on Pending Home Sales.



But before we get **too carried away** connecting the fate of financial markets with the housing market, let's get a few things straight. We're not anywhere even remotely close to comparing the current cooling trend to the crash that preceded the Financial Crisis. Indeed, Pending Home Sales haven't even lost half the ground lost in 2013 after the taper tantrum (big spike in rates).

Moreover, sales have been holding near post-crisis highs--this time without any help from the homebuyer tax credits that briefly juiced the housing market in 2009/10. Finally, the home price trend is **on another planet** compared to 2006-2008. While the annual pace of appreciation is likely to ebb, it's still well over 5%, depending upon whom you ask.

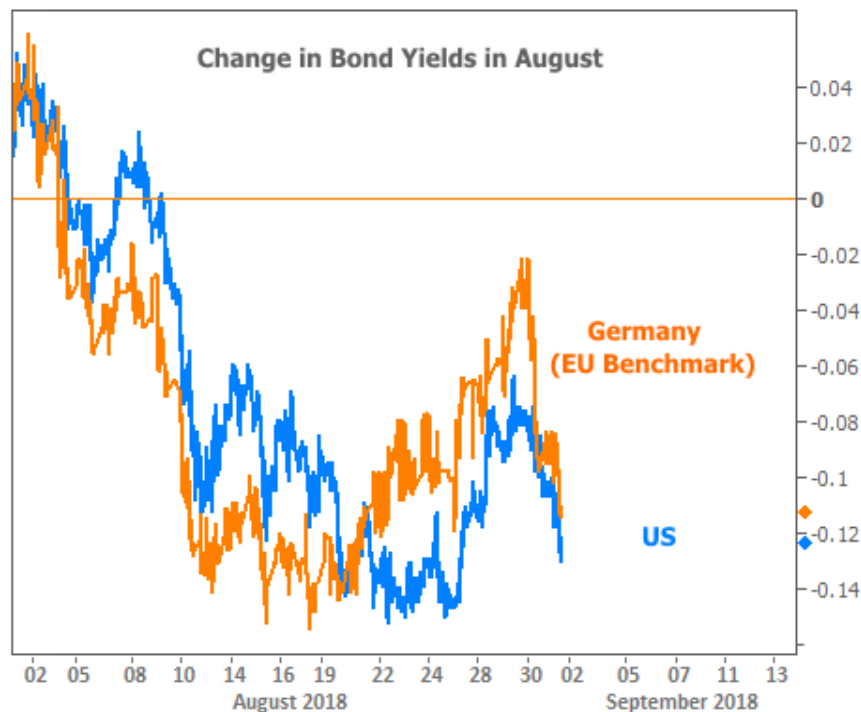
All of the housing-related counterpoints in the past 2 paragraphs can be seen in the following 2 charts.



All that to say that we may want to **think twice** before placing too much importance on the housing market as it concerns this week's movement in financial markets. The Fed's eyebrows are raised, but they're far from panicked.

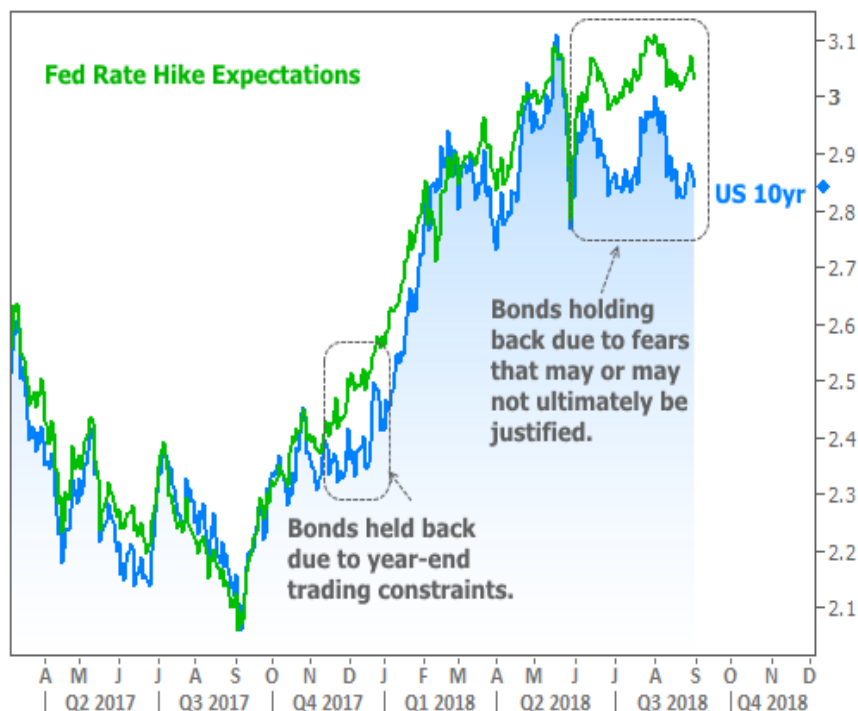
Besides, there were plenty of other candidates for inspiration, including recently higher volatility in European bond markets. We almost always tend to see at least some **spillover** from Europe when it comes to bond trading (the stuff that drives interest rates).

European rates were **surging** higher in the first half of the week. Their recovery coincided with the friendly bounce in US rates (note: Germany's 10yr yield is the benchmark for the EU due to Germany's dominant financial role in the EU).



Does this friendly bounce mean we're well on our way to ending the trend of record-low volatility with a triumphant move lower in rates? Again, such a thing could take months, if it happens at all. There are also warnings on the **other side** of the debate. We can see these if we take one more look at Fed rate hike expectations--this time with a wider lens.

The following chart shows a few instances where rate hike expectations have pulled away from US 10yr yields. The late 2017 example had more to do with year-end bond trading idiosyncrasies. The recent example, however, merits caution. It suggests that rates are **slightly lower** than they otherwise would be because of things like trade war uncertainty, emerging market turmoil, and the general risk-aversion some investors feel due to the staying power of the current economic cycle.



If those cautionary fears turn out **NOT** to be justified, the next big move in rates could just as easily take the form of the blue line catching up to the green.

On a side note, this coming Monday is Labor Day. Banks, title companies, financial markets, and most mortgage lenders will be closed. While there's no rule preventing individuals from working on Monday, a Federal banking holiday means few--if any--lenders will be able to lock or close loans until Tuesday.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Aug 28				
9:00AM	Jun CaseShiller 20 yy (%)	6.3	6.5	6.5
10:00AM	Aug Consumer confidence	133.4	126.7	127.4
1:00PM	5-Yr Note Auction (bl)	37		
Wednesday, Aug 29				
7:00AM	w/e MBA Purchase Index	230.1		232.1
7:00AM	w/e Mortgage Refinance Index	952.9		982.7
8:30AM	Q2 GDP Prelim (%)	4.2	4.0	4.1
10:00AM	Jul Pending Sales Index	106.2		106.9
10:00AM	Jul Pending Home Sales (%)	-0.7	0.3	0.9
1:00PM	7-Yr Note Auction (bl)	31		
Thursday, Aug 30				
8:30AM	Jul Consumer Spending (Consumption) (%)	+0.4	0.4	0.4
8:30AM	Jul Personal Income (%)	+0.3	0.3	0.4
8:30AM	Jul Core PCE (y/y) (%)	2.0	2.0	1.9
Friday, Aug 31				
9:45AM	Aug Chicago PMI	63.6	63.0	65.5
10:00AM	Aug U Mich Sentiment Final (ip)	96.2	95.5	95.3
Monday, Sep 03				
12:00AM	Labor Day			
Tuesday, Sep 04				
10:00AM	Aug ISM Manufacturing PMI	61.3	57.7	58.1
10:00AM	Jul Construction spending (%)	0.1	0.5	-1.1
Wednesday, Sep 05				
7:00AM	w/e MBA Purchase Index	231.4		230.1
7:00AM	w/e Mortgage Refinance Index	940.0		952.9
8:30AM	Jul International trade mm \$ (bl)	-50.1	-50.3	-46.3
9:45AM	Aug ISM-New York index	810.7		797.5
Thursday, Sep 06				
8:15AM	Aug ADP National Employment (k)	163	190	219

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Q2 Productivity Revised (%)	2.9	3.0	2.9
8:30AM	Q2 Labor Costs Revised (%)	-1.0	-0.9	-0.9
8:30AM	w/e Jobless Claims (k)	203	210	213
10:00AM	Aug ISM N-Mfg PMI	58.5	56.8	55.7
10:00AM	Jul Factory orders mm (%)	-0.8	-0.6	0.7
Friday, Sep 07				
8:30AM	Aug Average earnings mm (%)	0.4	0.2	0.3
8:30AM	Aug Private Payrolls (k)	204	190	170
8:30AM	Aug Non-farm payrolls (k)	201	191	157
8:30AM	Aug Unemployment rate mm (%)	3.9	3.8	3.9

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

