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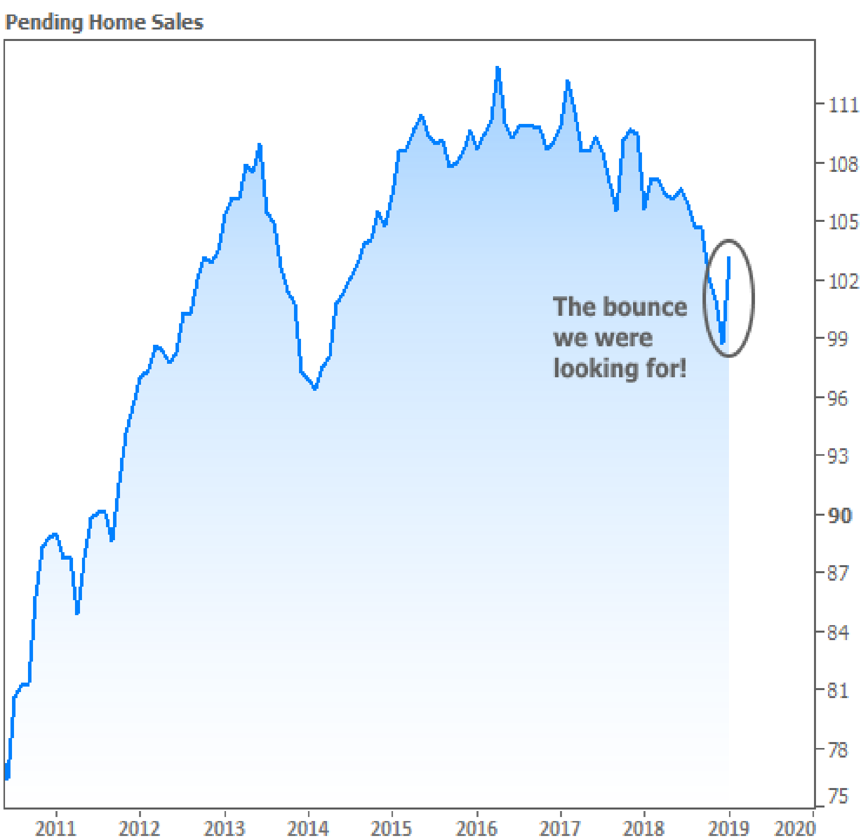
Home Sales Bouncing Back, But So Are Rates

Two weeks ago, the newsletter discussed why 2019 could actually be great for the housing market, despite downbeat reports and the likelihood of one more month of weakness for Existing Home Sales. That weakness showed up in the following week, but with it came a comment from the chief economist for the National Association of realtors saying home sales were likely at a cyclical low.

As of Wednesday, we finally got the Pending Home Sales report showing the bounce we were looking for. Pending Sales momentum is a precursor for a bounce in the next round of Existing Home Sales data. That means we may indeed have seen a cyclical low with the last report.



Unfortunately, we also saw the beginning of a fairly abrupt move higher in rates on Wednesday. Early that morning, underlying bond markets (which dictate mortgage rates) began to look panicked. It wasn't immediately clear what caused the move although Brexit-related news was the leading

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	4.3951	-0.0029
30 YR Treasury	4.5645	+0.0005

Pricing as of: 7/1 2:45AM 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%

candidate.

Why does Brexit news matter to US interest rates?

Interest rates tend to benefit from uncertainty and economic headwinds. Brexit represents a major unknown in terms of its impact on the European economy. The sooner it happens and the harsher the deal is for Britain, the greater that uncertainty. Wednesday's news suggested the deadline could be pushed back and a more favorable deal was still possible.

While the Brexit updates have generally pushed rates higher, they alone do not explain Wednesday's market movement. Other explanations involved simultaneous congressional testimonies from Fed Chair Powell, Michael Cohen, and Robert Lighthizer.

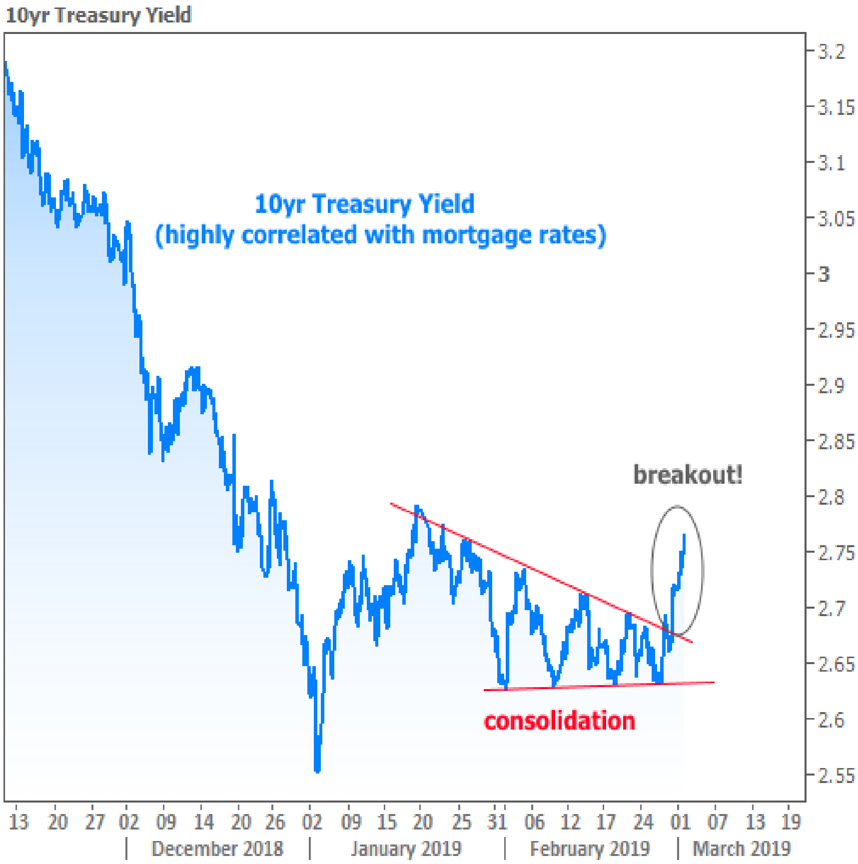
The catch is that none of these testimonies had started by the time the bond market began losing its composure. That leaves us with one of the most frustrating explanations from a market-watching standpoint, but also one of the most common: sometimes trading momentum is its own reason for existence.

We do know that big trades started hitting the bond market right at 8:20am ET, which is an important opening bell for a certain group of bond traders. If this group comes into the market on any given day looking to make the same sorts of trades, rates can end up moving quickly without any apparent motivation from economic data or news.

This "glut" of trading demand was definitely a factor behind rising rates in the morning. It wouldn't necessarily be something worth discussing except that it started a chain reaction that last through the end of the week.

Rates were well on their way to recovering when Thursday morning's GDP report came in stronger than expected. If anything, investors were on the lookout for the report to miss the mark due to the government shutdown. In general, if the 4th quarter of 2018 wasn't as bad as investors feared, that would suggest another move higher in rates.

This is really when the chain reaction happened. Rates had been pushed high enough to definitively break outside the consolidation range seen in the red lines below. Such consolidation patterns often give way to breakouts that carry more momentum than average. It's not unfair to say that bonds can feel pent-up in such ranges and subsequently look to release that pent-up energy.



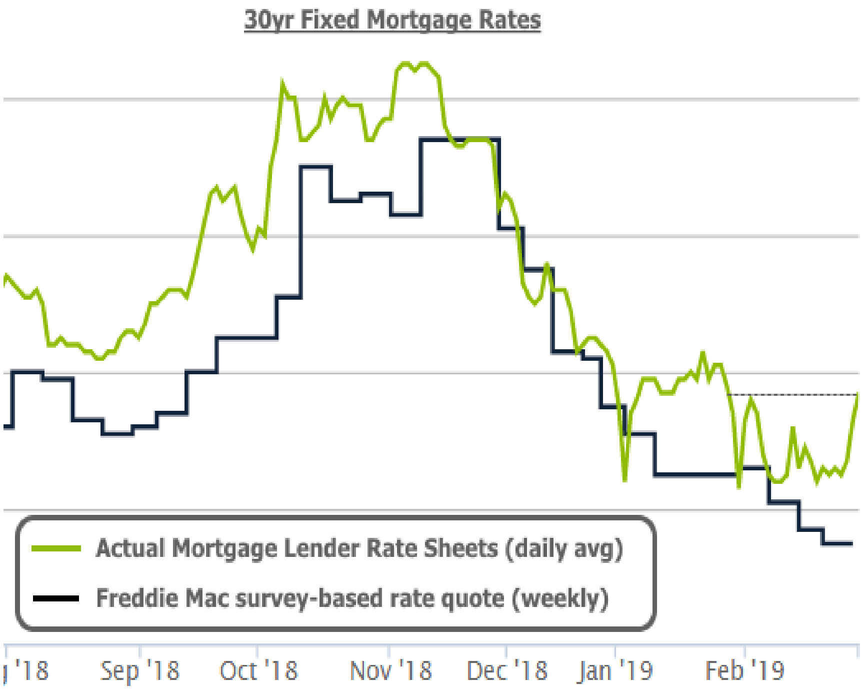
Bottom line: rates frequently react to market fundamentals (economic data, news headlines, and other developments that speak to the economy). Sometimes, however, the fundamental explanations fall short and we're left to observe so-called "technical" motivations (patterns in the charts and other purely mathematical assessments of what rates should do based on past precedent).

Bond traders were well aware of the consolidation range and the implication for a bigger move once it was broken. Without more panic surrounding Brexit, trade wars, and a GDP slump, it was only natural that the range breakout would take the unfriendly form seen above.

Is this the end of the road for our nice run of low rates in 2019? It's far too soon to conclude such things. Most traders are looking for the market to make bigger decisions in mid-March after the next Fed meeting. Between now and then, rather than plan on rates skyrocketing, a better baseline would be to shift the goalposts to something more horizontal, as seen in the following chart.

Much like the chart of 10yr Treasury yields above, **mortgage rates** are also at their highest levels in more than a month. That said, several news articles were out yesterday claiming the lowest rates in more than a year. **What's up with that?!**

As is frequently the case when rates make big moves in the second half of any given week, the source of confusion is Freddie Mac's weekly rate survey, which big news outlets rely on as source material. Freddie's data is just fine over time, but in the shorter-term, it heavily favors Monday and Tuesday rate quotes while completely ignoring Thursday and Friday. If we look at **actual lender rate sheet averages** compared to Freddie's weekly number, we see a line that looks much more like Treasury yields above. The implication is that the Freddie rate survey should jump noticeably next week, barring some unforeseen salvation for rates.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Feb 26				
8:30AM	Dec Housing starts number mm (ml)	1.078	1.250	1.256
8:30AM	Dec Build permits: change mm (%)	0.3		4.5
8:30AM	Dec Building permits: number (ml)	1.326	1.290	1.322
8:30AM	Dec House starts mm: change (%)	-11.2		3.2
9:00AM	Dec CaseShiller 20 yy (%)	+4.2	4.5	4.7
9:00AM	Dec Monthly Home Price yy (%)	5.6		5.8
10:00AM	Feb Consumer confidence	131.4	124.7	120.2
Wednesday, Feb 27				
10:00AM	Jan Pending Home Sales (%)	+4.6	0.4	-2.2
10:00AM	Jan Pending Sales Index	103.2		99.0
Thursday, Feb 28				
8:30AM	Q4 GDP Prelim (%)	2.6	2.3	3.5
8:30AM	w/e Jobless Claims (k)	225	225	216
9:45AM	Feb Chicago PMI	64.7	57.0	56.7
Friday, Mar 01				
8:30AM	Dec Core PCE Inflation (y/y) (%)	+1.9	1.9	1.9
10:00AM	Feb Consumer Sentiment (ip)	93.8	95.7	95.5
10:00AM	Feb ISM Manufacturing PMI	54.2	55.5	56.6

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Tuesday, Mar 05				
10:00AM	Feb ISM N-Mfg PMI	59.7	57.3	56.7
10:00AM	Dec New home sales chg mm (%)	+3.7	-8.7	16.9
10:00AM	Dec New home sales-units mm (ml)	0.621	0.600	0.657
Wednesday, Mar 06				
7:00AM	w/e Mortgage Refinance Index	1110.9		1133.8
7:00AM	w/e MBA Purchase Index	240.5		247.0
8:15AM	Feb ADP National Employment (k)	183	189	213
Thursday, Mar 07				
8:30AM	w/e Jobless Claims (k)	223	225	225
Friday, Mar 08				
8:30AM	Feb Non-farm payrolls (k)	20	180	304
8:30AM	Feb Unemployment rate mm (%)	3.8	3.9	4.0
8:30AM	Feb Average earnings mm (%)	0.4	0.3	0.1

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