



**Mike Baker**

Head Interest Rate Shopper, The Rate Shop  
 Individual NMLS: 259076 Company NMLS: 2554765 State  
 23211 W 45th St Shawnee, KS 66226

Office: 913-213-3335  
 Mobile: 913-213-3335  
[mike@rateshopkc.com](mailto:mike@rateshopkc.com)  
[View My Website](#)

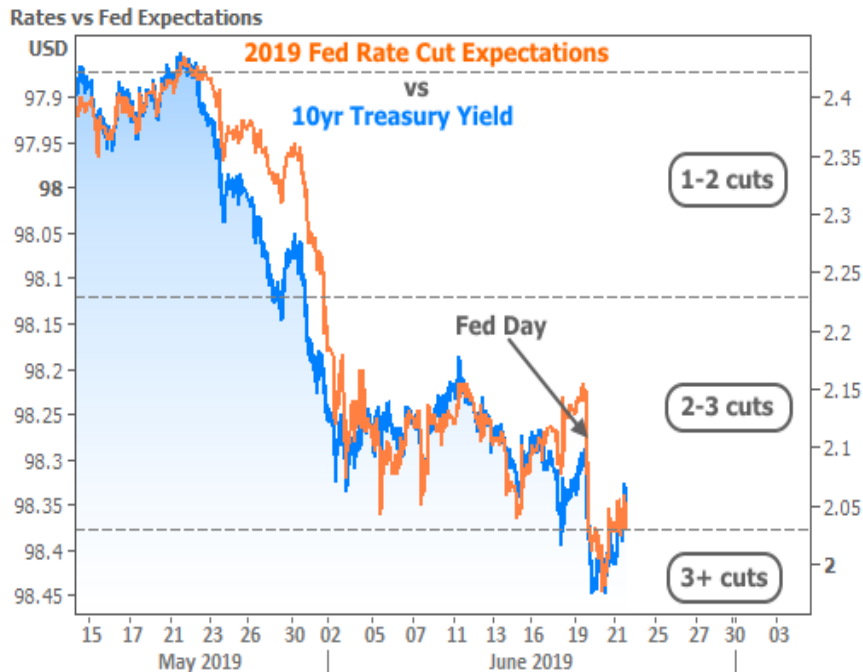
## Fed Confirms Market's Hopes, But There's a Catch

This week's policy announcement from the Federal Reserve (aka "The Fed") was hotly anticipated. In the past month and a half, traders have rapidly upped their bets on **multiple** Fed rate **cuts** in 2019 as trade tensions flared. Softer economic data only added fuel to the fire.

In other words, markets think they see a reason for a **big shift in Fed policy** and this was the Fed's first official policy announcement since the most recent bout of drama began.

**Why is the Fed's take so important?** Simply put, Fed policy is a critical component underlying global market movement. It's not that the Fed can dictate long-term market trends, but they can definitely accelerate or delay existing trends, and create a ton of volatility in the process.

This is more true in the interest rate world than anywhere else. In fact, Market expectations for Fed rate changes tend to trace day to day movements in actual interest rates. This can be seen in the following chart of 10yr Treasury Yields and Fed Funds Futures (where speculators bet on changes in the Fed Funds Rate).



## 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 2:49AM EST

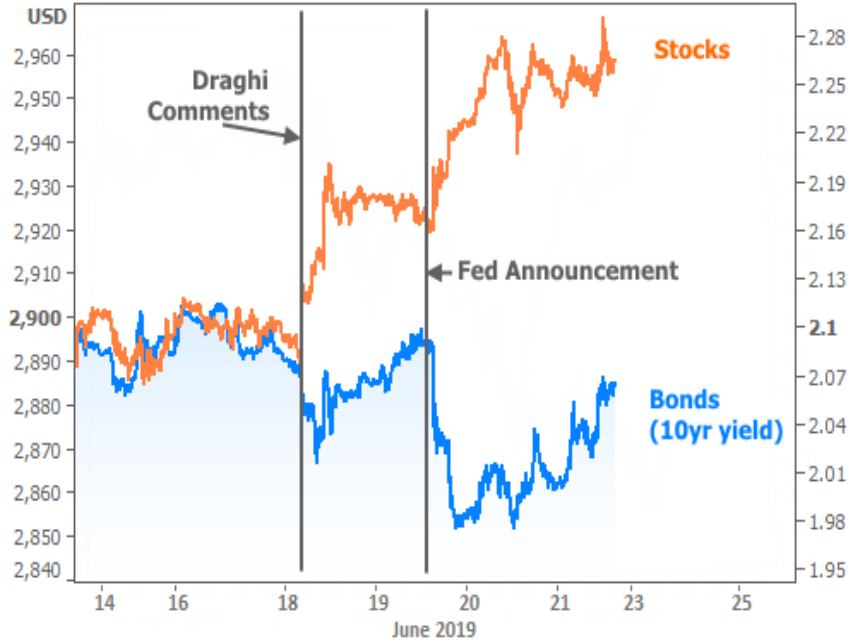
## Recent Housing Data

|                     | 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%  |

The chart shows rates falling on Fed day only to bounce back to pre-Fed levels by the end of the week. This tells us **the Fed did a pretty good job** of confirming rate cut suspicions **without** sending markets into a panic.

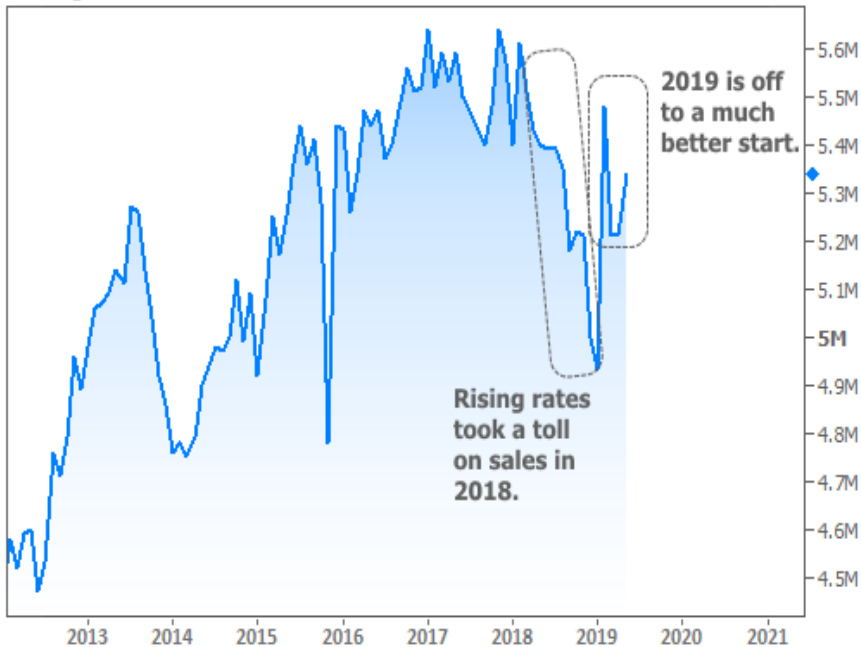
This is true for stocks as well as bonds. Both sides of the market enjoy the promise of easier monetary policy from central banks in the event any economic weakness takes root. The European Central Bank (ECB) proved that concept **a day before the Fed** as ECB President Draghi said that additional stimulus and rate cuts were likely. In both cases, the market reaction is obvious.

Rates vs Stocks

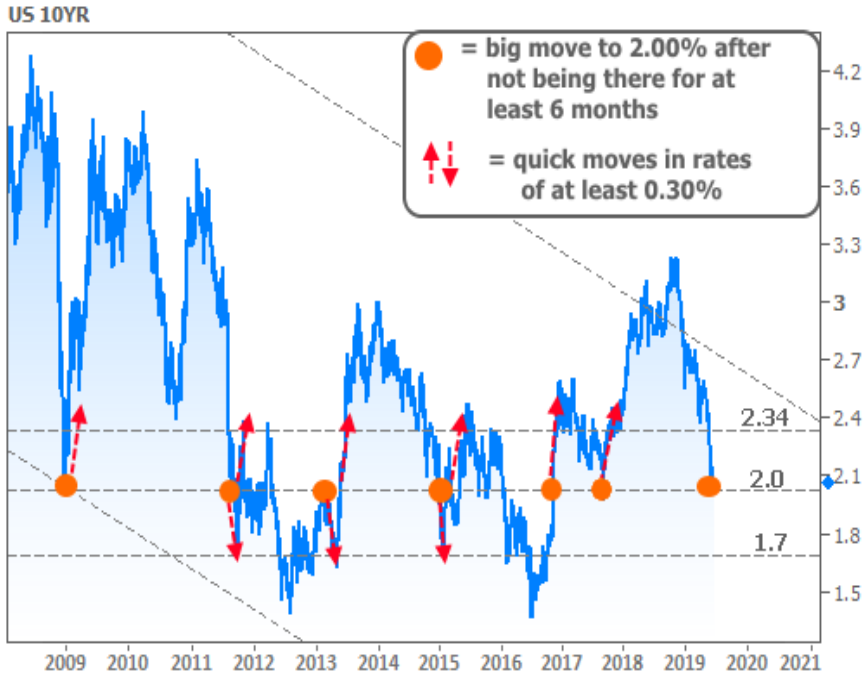


The **housing market** also has an obvious appreciation for lower rates, but with a **far slower reaction time**. While we can see the broader decline in rates having a positive impact on home sales so far in 2019, we can only speculate as to additional gains that may follow if the average 30yr fixed rate continues to operate below 4%.

Existing Home Sales



So what's "the catch" mentioned in the title? If there's one key takeaway from this week's Fed announcement and the broader decline in rates in 2019, it's that **we should expect additional volatility ahead**. In the past, when 10yr Treasury yields (the best benchmark for momentum in longer-term rates like mortgages) make big moves down to 2.0%, we tend to see the next .30% follow quite quickly (often in both directions).



**Bottom line:** by confirming the market's hopes for potential rate cuts, the Fed is also confirming a high stakes game. The major economic reports in the first week of July will be especially important as they'll have a chance to justify or cast doubt on the massive shift in rate cut expectations. Volatility would only be compounded by the fact that markets are closed on Thursday for Independence Day. There's no way to know ahead of time which way rates would move, only that they could move quickly.

Until then, enjoy the fact that rates are now back inside the decades-long bull market that was apparently defeated in 2018 (same diagonal lines from the chart above):

US 10YR



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

## Recent Economic Data

| Date                     | Event                             | Actual        | Forecast | Prior  |
|--------------------------|-----------------------------------|---------------|----------|--------|
| <b>Monday, Jun 17</b>    |                                   |               |          |        |
| 10:00AM                  | Jun NAHB housing market indx      | 64            | 67       | 66     |
| <b>Tuesday, Jun 18</b>   |                                   |               |          |        |
| 8:30AM                   | May Building permits: number (ml) | 1.294         | 1.296    | 1.290  |
| 8:30AM                   | May Housing starts number mm (ml) | 1.269         | 1.239    | 1.235  |
| 8:30AM                   | May Build permits: change mm (%)  | 0.3           |          | 0.2    |
| 8:30AM                   | May House starts mm: change (%)   | -0.9          |          | 5.7    |
| <b>Wednesday, Jun 19</b> |                                   |               |          |        |
| 7:00AM                   | w/e MBA Purchase Index            | 268.6         |          | 278.4  |
| 7:00AM                   | w/e Mortgage Refinance Index      | 1888.8        |          | 1956.5 |
| 2:00PM                   | N/A FOMC rate decision (%)        | 2.250 - 2.500 | 2.375    | 2.375  |
| 2:31PM                   | Powell Press Conference           |               |          |        |
| <b>Thursday, Jun 20</b>  |                                   |               |          |        |
| 8:30AM                   | Jun Philly Fed Business Index     | 0.3           | 11.0     | 16.6   |
| 8:30AM                   | w/e Jobless Claims (k)            | 216           | 218      | 222    |
| 10:00AM                  | May Leading index chg mm (%)      | 0.0           | 0.1      | -0.1   |
| <b>Friday, Jun 21</b>    |                                   |               |          |        |
| 10:00AM                  | May Existing home sales (ml)      | 5.34          | 5.25     | 5.19   |
| 10:00AM                  | May Exist. home sales % chg (%)   | 2.5           | 1.2      | -0.4   |

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

| Date                     | Event   | Actual | Forecast | Prior  |
|--------------------------|---|--------|----------|--------|
| <b>Tuesday, Jun 25</b>   |   |        |          |        |
| 9:00AM                   | Apr CaseShiller 20 yy (%)                     | 2.5    | 2.6      | 2.7    |
| 9:00AM                   | Apr Monthly Home Price yy (%)                 | 5.2    |          | 4.9    |
| 10:00AM                  | May New home sales-units mm (ml)              | 0.626  | 0.680    | 0.673  |
| 10:00AM                  | May New home sales chg mm (%)                 | -7.8   | 1.9      | -6.9   |
| 10:00AM                  | Jun Consumer confidence                       | 121.5  | 131.1    | 134.1  |
| 1:00PM                   | 2-Yr Note Auction (bl)                        | 40     |          |        |
| <b>Wednesday, Jun 26</b> |   |        |          |        |
| 7:00AM                   | w/e Mortgage Refinance Index                  | 1949.5 |          | 1888.8 |
| 7:00AM                   | w/e MBA Purchase Index                        | 266.3  |          | 268.6  |
| 8:30AM                   | May Durable goods (%)                         | -1.3   | -0.1     | -2.1   |
| 8:30AM                   | May Nondefense ex-air (%)                     | 0.4    | 0.1      | -1.0   |
| 1:00PM                   | 5-Yr Note Auction (bl)                        | 41     |          |        |
| <b>Thursday, Jun 27</b>  |   |        |          |        |
| 8:30AM                   | Q1 GDP Final (%)                              | 3.1    | 3.1      | 3.1    |
| 8:30AM                   | w/e Jobless Claims (k)                        | 227    | 220      | 216    |
| 10:00AM                  | May Pending Sales Index                       | 105.4  |          | 104.3  |
| 10:00AM                  | May Pending Home Sales (%)                    | 1.1    | 1.0      | -1.5   |
| 1:00PM                   | 7-Yr Note Auction (bl)                        | 32     |          |        |
| <b>Friday, Jun 28</b>    |   |        |          |        |
| 8:30AM                   | May Core PCE Inflation (y/y) (%)              | 1.6    | 1.6      | 1.6    |
| 9:45AM                   | Jun Chicago PMI                               | 49.7   | 53.1     | 54.2   |
| 10:00AM                  | Jun Consumer Inflation Expectations (1yr) (%) | 2.7    |          | 2.6    |
| 10:00AM                  | Jun Consumer Sentiment (ip)                   | 98.2   | 98.0     | 97.9   |
| 10:00AM                  | Jun Consumer Inflation Expectations (5yr) (%) | 2.3    |          | 2.2    |

## 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**

