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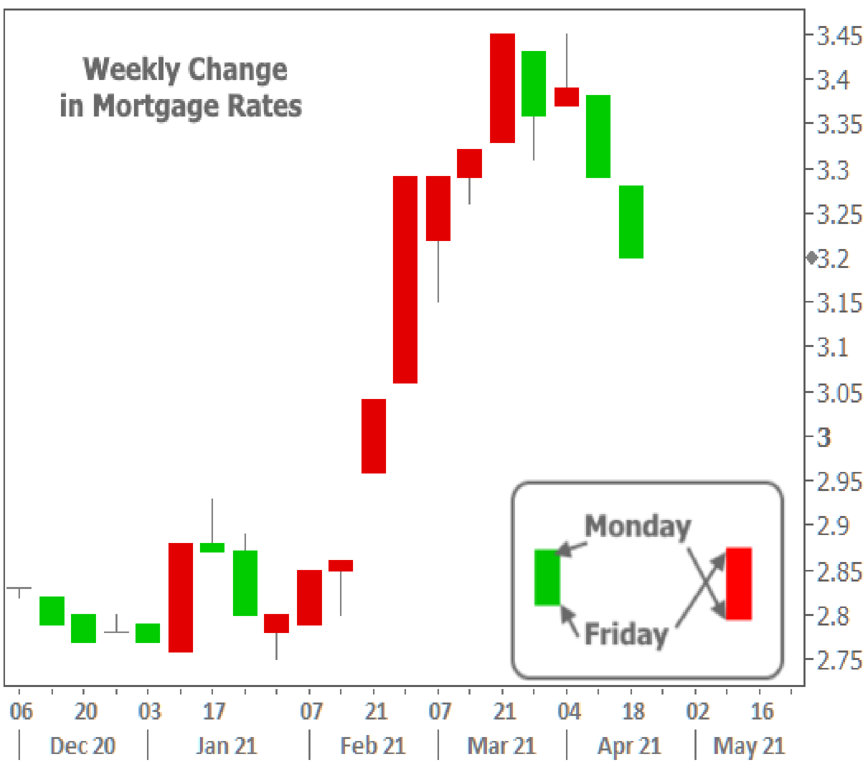
Best 2 Weeks For Rates in Nearly a Year

The bond market has been pointing toward **higher** rates since last August. Mortgage rates were able to **defy** that trend at first, but finally began spiking in the new year. February and March were two of the worst back-to-back months in years.

The higher rates went, the more likely it became that we'd see at least some sort of push back in the other direction. Anticipation and anxiety were running high as rates hit **long term peaks** at the end of March. Now 2 weeks in, April is clearly the month we were hoping it would be. Rates haven't dropped this quickly since the pandemic began.



What's with the change of heart?

The bond market (which dictates rates) has a few quintessential sources of motivation. "The economy" is at the top of that list. Indeed, a brighter economic outlook (due to vaccines, falling case counts, stimulus, etc.) was a key ingredient in the recent rate spike. Ironically, strong economic data appeared to have the **opposite effect** on rates this week.

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

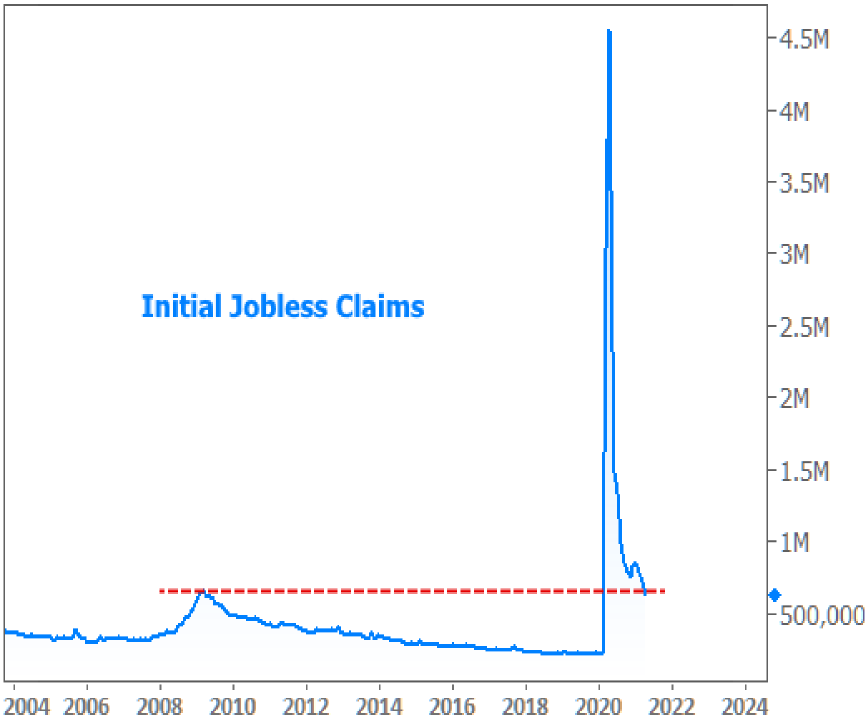
	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3902	-0.0078
30 YR Treasury	4.5564	-0.0076

Pricing as of: 6/30 10:52PM EST

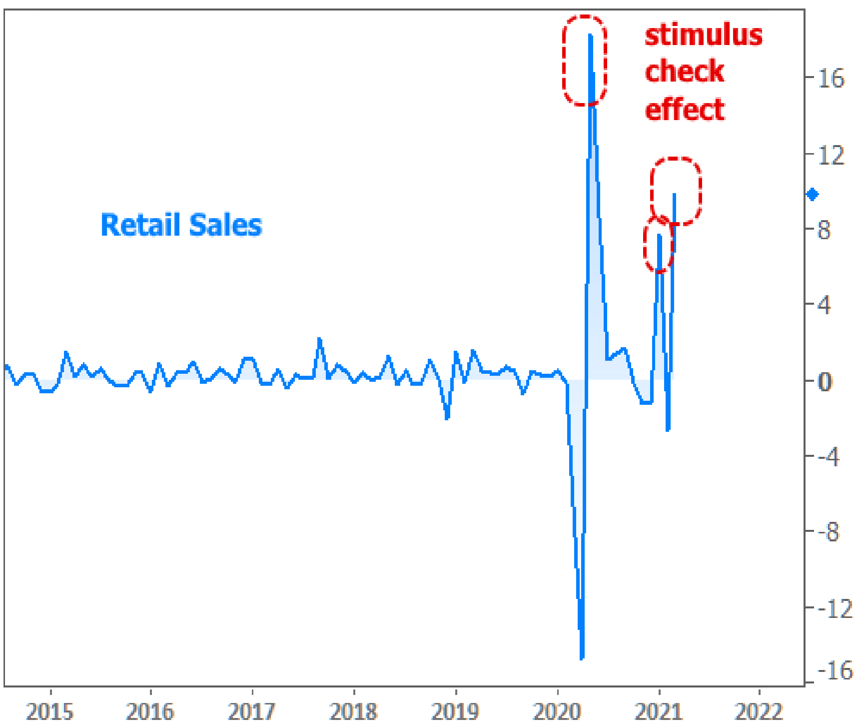
Recent Housing Data

		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%

Thursday was the best example of this paradoxical reaction. Two key reports were released at 8:30am ET. Weekly Jobless Claims dropped significantly, finally making it back to a range that existed before the pandemic (even if we have to go back to the financial crisis to see anything as high).



There was a **more clear-cut victory** in the Retail Sales report, which surged to 9.8% for the month of March. Economists were expecting 5.9% after a 2.7% decline in February. This was one of the three strongest reports on record. But it also coincided with the 3rd round of covid-relief stimulus checks.



The "stimulus effect" could help to explain why the bond market was able to look past the data. Bonds continued to improve throughout the day with 10yr Treasury yields ultimately hitting their **lowest** levels in more than a month.

The notion of discounting the data due to stimulus payments is not enough to account for this week's strong performance. Bonds were simply **on a mission** to improve, and that's generally been the case for the entire month. It's not uncommon to see a new month push back in the other direction after strong momentum in the previous month.

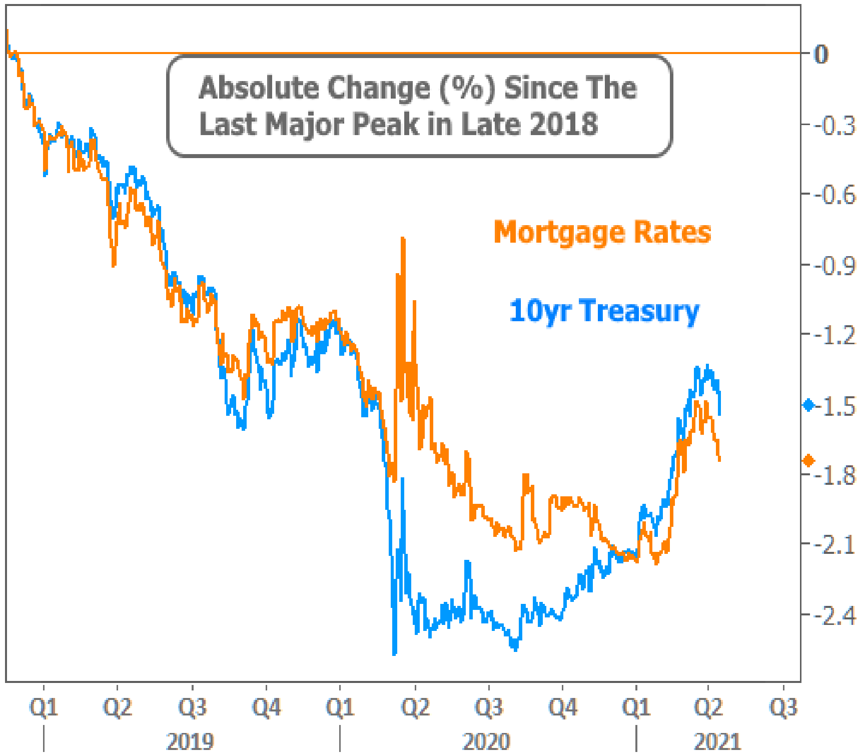
Imbalanced trading positions were also susceptible to getting "squeezed." Specifically, a large number of traders with "short" positions (i.e. bets on rates moving higher) were forced to cover those positions (by buying) as bonds improved. More buying begets more short-covering, and pretty soon, it becomes a **snowball** move toward lower yields/rates.

There was some additional evidence for the "snowball" thesis as yields moved back up on Thursday afternoon (i.e. rates didn't really mean to fall quite that much). By Friday, most of the improvement was erased, but not enough to derail the friendly trend seen so far in April.

How much longer can these good times last? It's the market! One can never be sure.

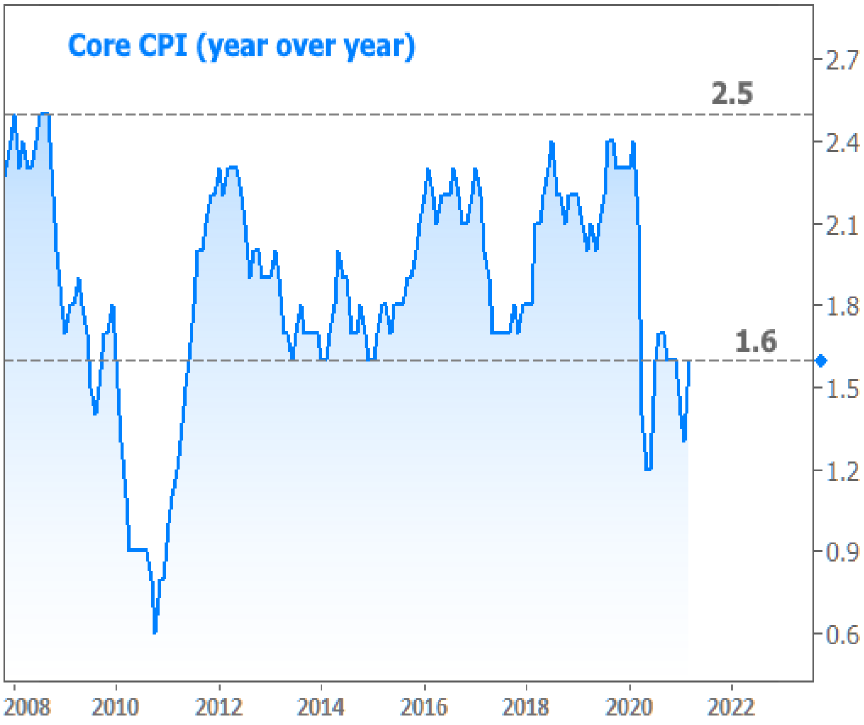
If things go well, seasonal patterns suggest a yield bottom in June/July/August. That's happened in 6 out of the past 10 years. It's impossible to know how much rates could fall, but there's definitely more resistance in that direction. Bigger improvement in rates would be reserved for more dire economic scenarios--the kind we frankly hope not to see, no matter how much we like low rates.

If things go poorly, rates may not go much lower before beginning a steady grind toward higher highs in the coming months. How high depends on several factors, but in previous newsletters, we've highlighted a precedent that suggests 2.4% in 10yr Treasury yields--roughly 0.80% higher than current levels. Mortgage rates tend to move at a similar pace, especially now that the post-pandemic disconnect has been resolved.

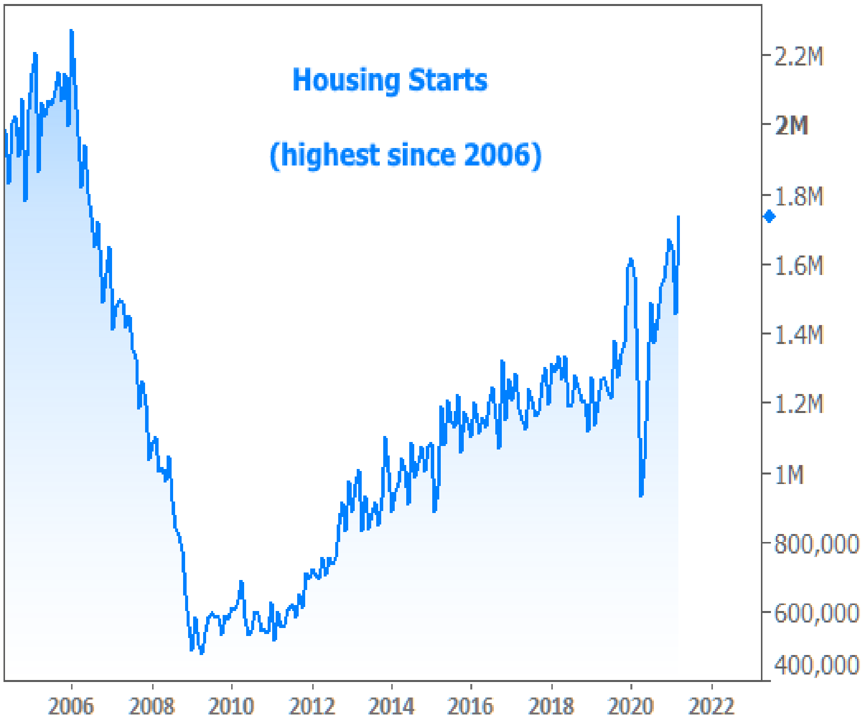


Selected charts from the week's other economic reports:

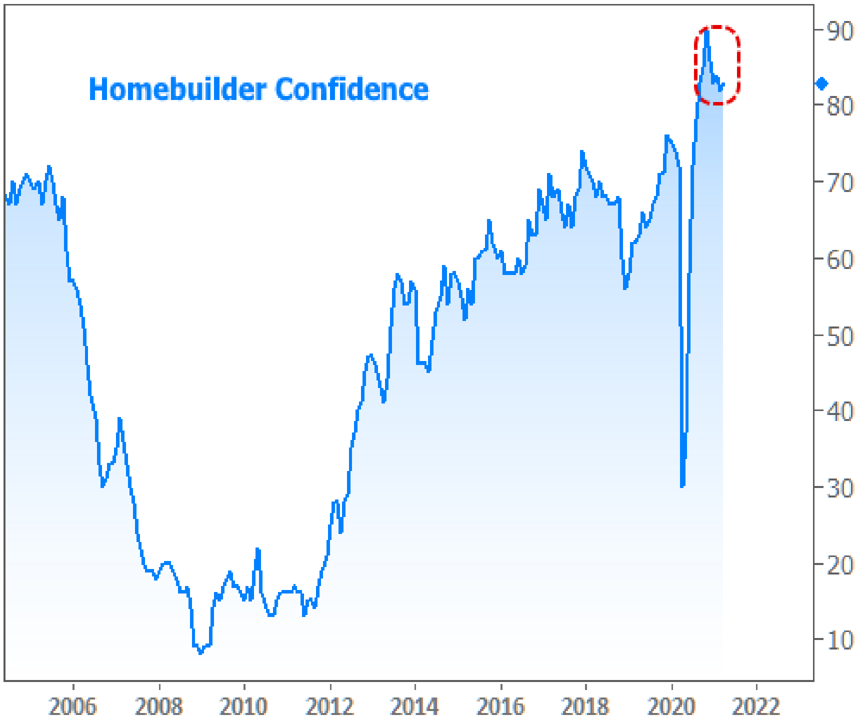
The Consumer Price Index (CPI) is one of the key **inflation** reports. The Fed will continue buying bonds and keeping short-term rates low until this number (and others like it) are closer to 2.5% on a sustained basis. This week's release clearly says "we're not there yet."



Housing Starts measure the number of new home construction projects that have reached the ground-breaking phase. This week's report (for the month of March) was the best since before the financial crisis.



With the construction numbers in mind, it's no surprise to see **builder confidence** remaining near all-time highs.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Apr 12				
11:30AM	3-Yr Note Auction (bl)	58		
1:00PM	10-yr Note Auction (bl)	38		
Tuesday, Apr 13				
8:30AM	Mar Core CPI (Annual) (%)	1.6	1.5	1.3
1:00PM	30-Yr Bond Auction (bl)	24		
Wednesday, Apr 14				
7:00AM	w/e MBA Purchase Index	279.5		283.6
7:00AM	w/e MBA Refi Index	2916.7		3068.8
8:30AM	Mar Import prices mm (%)	1.2	1.0	1.3
8:30AM	Mar Export prices mm (%)	2.1	1.0	1.6
12:00PM	Powell Q&A			
Thursday, Apr 15				
8:30AM	Apr Philly Fed Business Index	50.2	42.0	51.8
8:30AM	Mar Retail Sales (%)	9.8	5.9	-3.0
8:30AM	Apr NY Fed Manufacturing	26.30	20.00	17.40
8:30AM	w/e Jobless Claims (k)	576	625	744
9:15AM	Mar Industrial Production (%)	1.4	2.8	-2.2
10:00AM	Feb Business Inventories (%)	0.5	0.5	0.3
10:00AM	Apr NAHB housing market indx	83	83	82
Friday, Apr 16				
8:30AM	Mar House starts mm: change (%)	19.4		-10.3
8:30AM	Mar Building permits: number (ml)	1.766	1.750	1.720
8:30AM	Mar Housing starts number mm (ml)	1.739	1.617	1.421
8:30AM	Mar Build permits: change mm (%)	2.7		-8.8
10:00AM	Apr 5yr Inflation Outlook (%)	2.7		2.7
10:00AM	Apr Consumer Sentiment	86.5	89.6	84.9
10:00AM	Apr 1yr Inflation Outlook (%)	3.7		3.1
Wednesday, Apr 21				
7:00AM	w/e MBA Purchase Index	295.5		279.5
7:00AM	w/e MBA Refi Index	3219.9		2916.7
Thursday, Apr 22				
10:00AM	Mar Leading index chg mm (%)	1.3	1.0	0.2
10:00AM	Mar Existing home sales (ml)	6.01	6.19	6.22
10:00AM	Mar Exist. home sales % chg (%)	-3.7	0.8	-6.6
Friday, Apr 23				
9:45AM	Apr PMI-Manufacturing (Markit)	60.6	60.5	59.1

Event Importance:

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

Date	Event	Actual	Forecast	Prior
9:45AM	Apr PMI-Composite (source:Markit)	62.2		59.7
9:45AM	Apr PMI-Services (Markit)	63.1	61.9	60.4
10:00AM	Mar New Home Sales (%) (%)	20.7	12.8	-18.2
10:00AM	Mar New Home Sales (ml)	1.021	0.886	0.775

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