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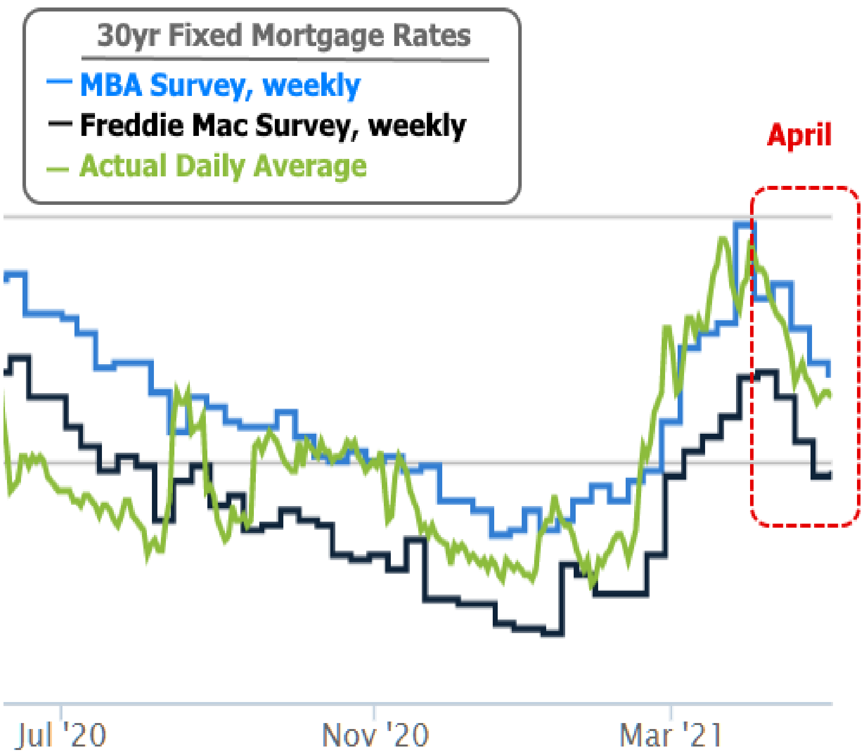
Moment of Truth For Rates and Housing

This week's 6.4% reading on Q1 GDP reinforced the notion of a strong economic recovery. In turn, the recovery helps to justify the sharp move higher in rates seen during the same 3 months. Rates managed to recover quite a bit in April, but ended up **rising slightly** this week, by some measures. Is the intermission over?

The following charts offer several ways to look at the intermission (basically April's push back against the previous 3 months of significantly higher rates). Mortgage rates have outperformed other parts of the bond market even though they remain highly stratified by loan type and investor. As such, the intermission looks healthy at first glance.



The 10yr Treasury yield (the quintessential benchmark of broad longer-term rate momentum) does a better job of showing this week's modest upward drift after bouncing several times at 1.53%.

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

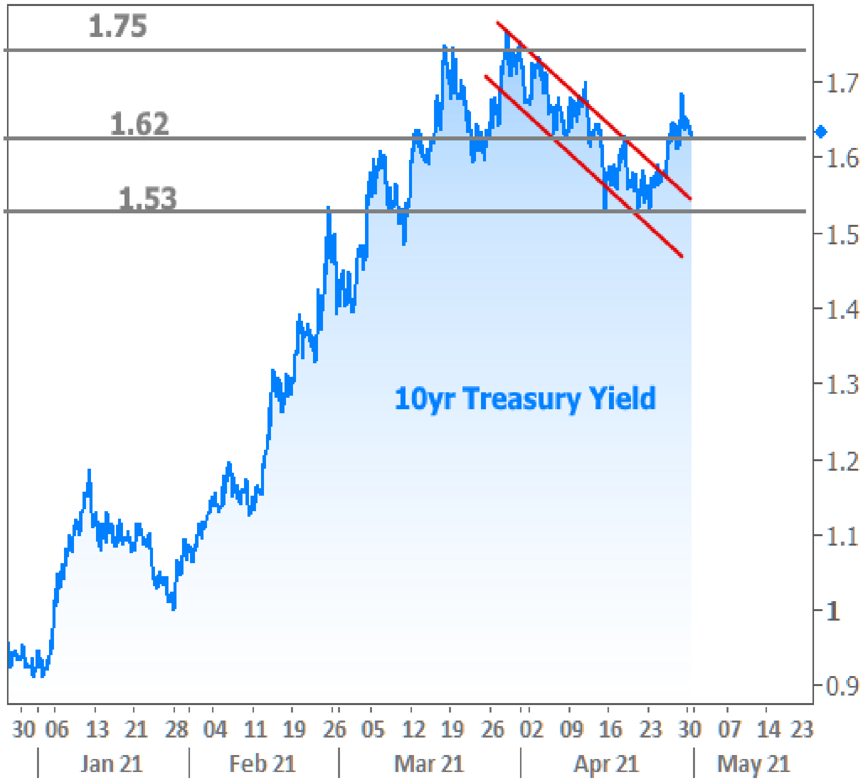
Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3897	-0.0083
30 YR Treasury	4.5568	-0.0072

Pricing as of: 6/30 10:53PM 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%



If we zoom out, we can see that April's consolidation/correction takes place exactly where we'd hoped based on previous discussions of "the hitch" zone. In general, this means that **rates had risen enough** to justify taking a break.

The hitch also serves as a **reminder** about how much more ground rates could cover (or recover) if things go very well (or poorly) for covid and the economy. Indeed, that's what it's all about--a fact that was reiterated yet again in this week's press conference following the Federal Reserve's policy announcement.

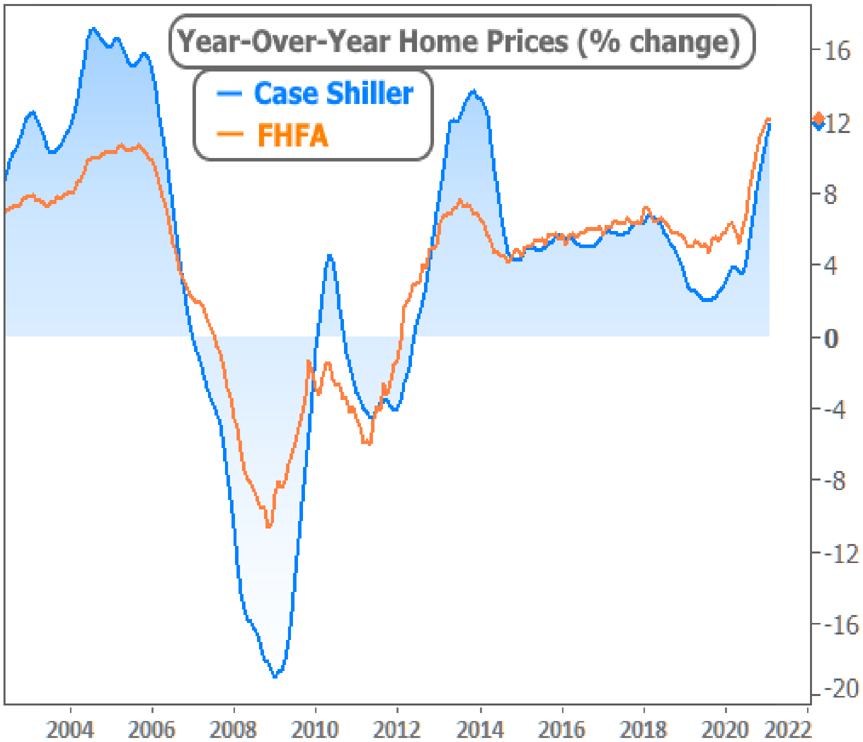
Fed announcement days have a track record as being some of the best (or worst) days for mortgage rates. That said, they can be completely **meaningless** as well, and that's the designation we'd pick for this week's version (if we could only pick one).

Is it true that the Fed kept "rates" unchanged at 0-0.25%? Yes, but it's important to understand that refers to the Fed Funds Rate--a target rate for overnight lending between big banks. Mortgage rates can **loosely** correlate with the Fed Funds Rate over very long time horizons, but they frequently move in the opposite direction. More importantly mortgage rates are constantly moving whereas the Fed Funds rate hasn't changed in more than a year now (and is only usually capable of changing once every 6 weeks, outside of extraordinary circumstances).

So **why** do mortgage rates have a history of big reactions to the Fed if the Fed Funds Rate doesn't have much of a bearing on mortgage rates?

Simply put: the Fed does "other stuff" besides announce the Fed Funds Rate. That's just the piece of the announcement that news outlets tend to lead with. Mortgage rates are far more interested in the Fed's bond buying programs, which include $40 billion per month in new mortgage bond purchases (in addition to reinvestments of proceeds from past mortgage bond purchases). On that topic, the Fed held steady and indicated we're still a long way from a situation where bond purchases would be tapered.

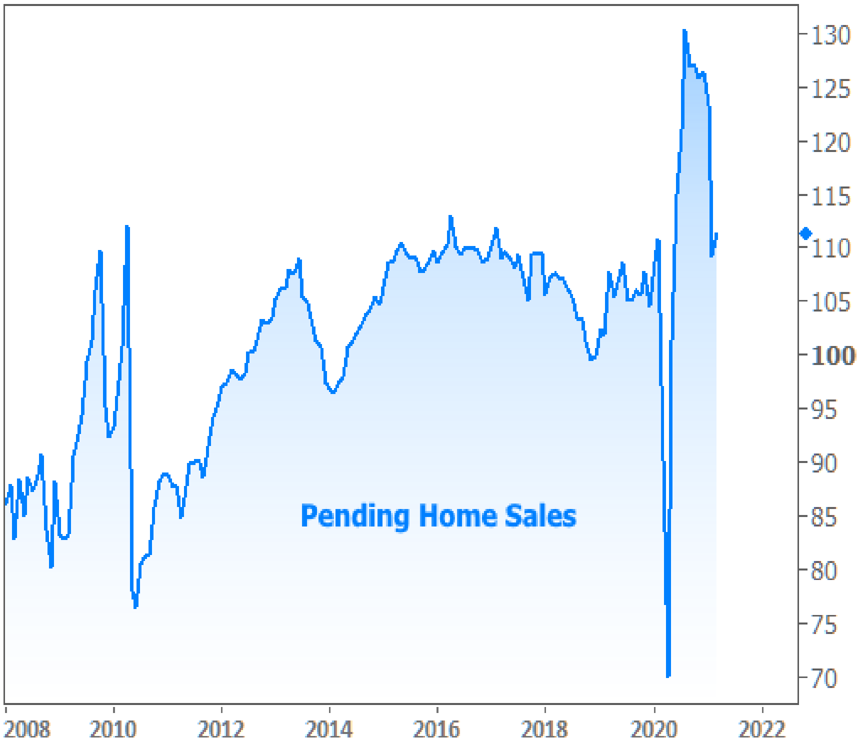
Some **market participants have wondered** why the Fed continues to buy the same amount of mortgage-backed bonds in light of the blistering pace of home price appreciation. Case in point, Tuesday brought another month's worth of home price data from Case Shiller and the FHFA.



When questioned about ongoing mortgage bond buying, Fed Chair Powell reminded us that the mortgage market is **one of two** key sectors the Fed can target in the pursuit of its goals. **In other words**, the Fed decided it needs to spend a certain amount of money buying bonds and the mortgage market is one of the two key places it can spend that money. Despite being fairly familiar with this narrative, the mortgage market was nonetheless marginally relieved to get additional confirmation--a key reason that mortgage rates did better than Treasuries in the 2nd half of the week.

While the Fed offers unequivocal support in the present, traders continue worrying about the future. It's **easy to imagine** a scenario where the economy has healed enough for the Fed to start dialing back. When that happens, it could be the catalyst for rates to officially break out of the 'intermission' trend and resume their upward march.

In this week's other housing-related data, **Pending Home Sales** (the timeliest of the home sales reports) avoided losing any more ground after a 4 month slide. Realtors rightfully point out that a lack of inventory is the biggest detractor to what would otherwise be record numbers.



Next week brings a slew of big-ticket economic data that could further inform the recovery narrative, including the big monthly jobs report on Friday. If the new numbers are as strong as they were last time, it would bring the Fed one step closer to actually having that discussion about tapering. Rates probably wouldn't love that. Stay tuned...

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

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Apr 26				
8:30AM	Mar Core CapEx (%)	0.9	1.5	-0.9
8:30AM	Mar Durable goods (%)	0.5	2.3	-1.2
1:00PM	5-Yr Note Auction (bl)	61		
Tuesday, Apr 27				
9:00AM	Feb CaseShiller 20 yy (%)	+11.9	11.7	11.1
9:00AM	Feb Monthly Home Price yy (%)	+12.2		12.0
10:00AM	Apr Consumer confidence	121.7	113.0	109.7
1:00PM	7-Yr Note Auction (bl)	62		

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Wednesday, Apr 28				
7:00AM	w/e MBA Purchase Index	281.4		295.5
7:00AM	w/e MBA Refi Index	3185.3		3219.9
2:00PM	N/A FOMC rate decision (%)	0.000 - 0.250	0.125	0.125
2:30PM	Powell Press Conference			
Thursday, Apr 29				
8:30AM	Q1 GDP Advance (%)	6.4	6.1	4.3
8:30AM	w/e Jobless Claims (k)	553	540	547
10:00AM	Mar Pending Sales Index	111.3		110.3
10:00AM	Mar Pending Home Sales (%)	+1.9	5.0	-10.6
Friday, Apr 30				
8:30AM	Q1 Employment costs (%)	0.9	0.7	0.7
8:30AM	Mar Core PCE Inflation (y/y) (%)	1.8	1.8	1.4
9:45AM	Apr Chicago PMI	72.1	65.3	66.3
10:00AM	Apr Sentiment: 1y Inflation (%)	3.4		3.7
10:00AM	Apr Consumer Sentiment (ip)	88.3	87.4	86.5
10:00AM	Apr Sentiment: 5y Inflation (%)	2.7		2.7
Monday, May 03				
10:00AM	Apr ISM Manufacturing PMI	60.7	65.0	64.7
10:00AM	Mar Construction spending (%)	0.2	1.9	-0.8
Tuesday, May 04				
8:30AM	Mar International trade mm $ (bl)	-74.4	-74.5	-71.1
9:45AM	Apr ISM-New York index			804.5
10:00AM	Mar Factory orders mm (%)	1.1	1.3	-0.8
Wednesday, May 05				
7:00AM	w/e MBA Purchase Index	274.5		281.4
7:00AM	w/e MBA Refi Index	3188.7		3185.3
8:15AM	Apr ADP National Employment (k)	742	800	517
10:00AM	Apr ISM N-Mfg PMI	62.7	64.3	63.7
10:00AM	Apr ISM N-Mfg Bus Act	62.7	69.5	69.4
Friday, May 07				
8:30AM	Apr Non-farm payrolls (k)	266	978	916
8:30AM	Apr Unemployment rate mm (%)	6.1	5.8	6.0
10:00AM	Mar Wholesale inventories mm (%)	1.3	1.4	1.4

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