US Housing Market Weekly

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Who's Lying About The Spike in Mortgage Rates?

As recently as Thursday, news outlets were reporting mortgage rates had only risen modestly this week with 30yr fixed rates still well under 3.00%. In fact, they were **already** well over 3.00% by then.

So who's lying to you?

Perhaps no one! Thursday's news fell victim to the oldest trick in the mortgage rate reporting book. Well, it's not a **trick** so much as a **pitfall**, but it's surprisingly common given how easy it would be to avoid.

The issue centers on Freddie Mac's weekly mortgage rate survey. As the name suggests, this is an actual survey that's sent out to thousands of originators over the weekend. Responses are accepted through Wednesday, but a majority of responses are in by Monday morning. Results aren't released until Thursday.

This isn't a problem when rates remain relatively flat between Monday and Thursday, but it can cause **significant confusion** on more volatile weeks. After all, this is by far and away the most commonly cited source among news organizations that are used to posting one piece on mortgage rates each week.

As you might have guessed, this was one of those more volatile weeks. In fact, on Thursday, rates jumped at the **fastest** single-day pace since March. Not a great day for a weekly mortgage rate survey to be released... Rates ended up roughly a quarter of a point higher than Freddie's number, and that's a **big** move in the mortgage world.

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

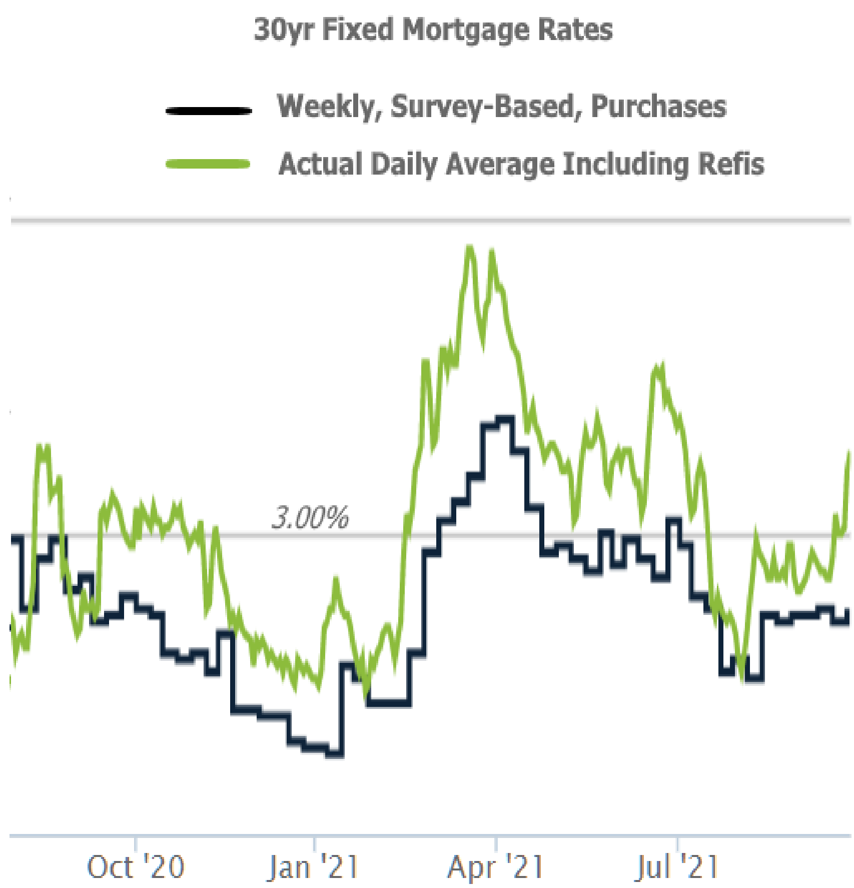
Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.4079	+0.0099
30 YR Treasury	4.5760	+0.0120

Pricing as of: 6/30 8:43PM EST

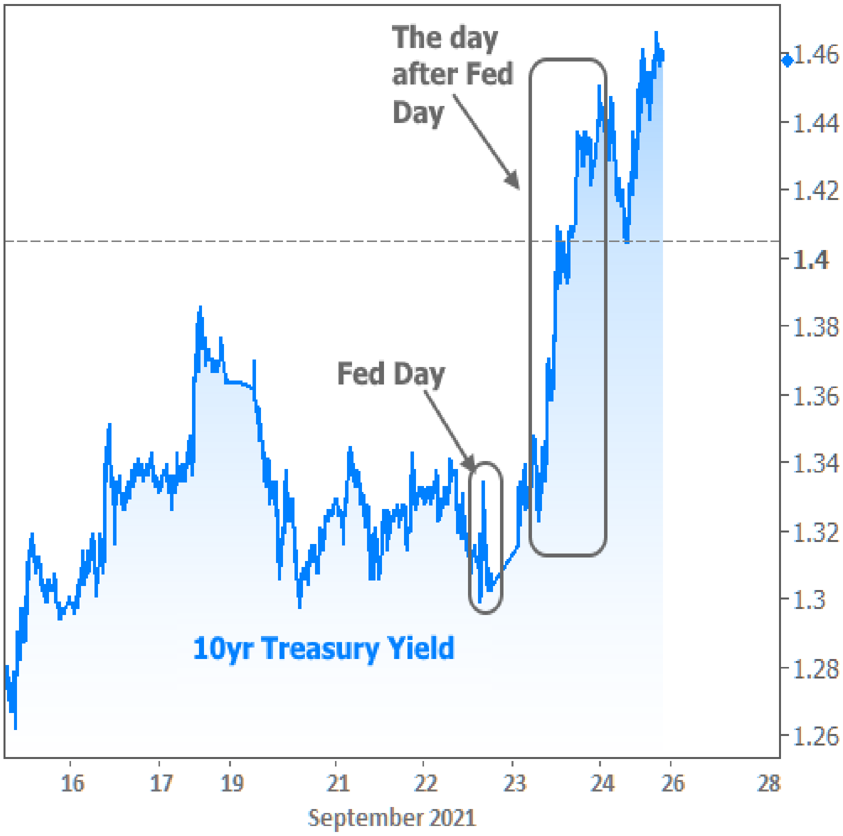
Recent Housing Data

		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%



Given the proximity to Wednesday's policy announcement from the Federal Reserve (aka "the Fed"), it's tempting to conclude the Fed said something to **spook** the market. If that were truly the case, we likely would have seen a bigger reaction on Wednesday itself.

Instead, bonds went wild on the **following** morning, as seen in the 10yr yield below. Mortgage rates only change once or twice a day, typically. We can use 10yr Treasury yields to observe the moment-to-moment changes in the bond market as the 10yr tends to correlate very well with mortgage rates.



This begs the question: **what happened on Thursday?**

As unsatisfying as it may be, Thursday's drama transcended a single, massive source of inspiration. The **team effort** didn't even have a clear leader, but players include:

- Gradual global reaction to Wednesday's Fed Announcement
- Foreign central banks releasing policies or comments that were bad for rates
- Foreign bond markets losing lots of ground
- Stocks at home and abroad gaining lots of ground
- Lower "contagion" fears surrounding China's Evergrande
- "Technical" triggers (more on that below)

Technical analysis is a form of market analysis that relies on charts, math, and key levels to inform trading strategy. It exists in contrast to fundamental analysis which focuses on what's actually happening in the economy.

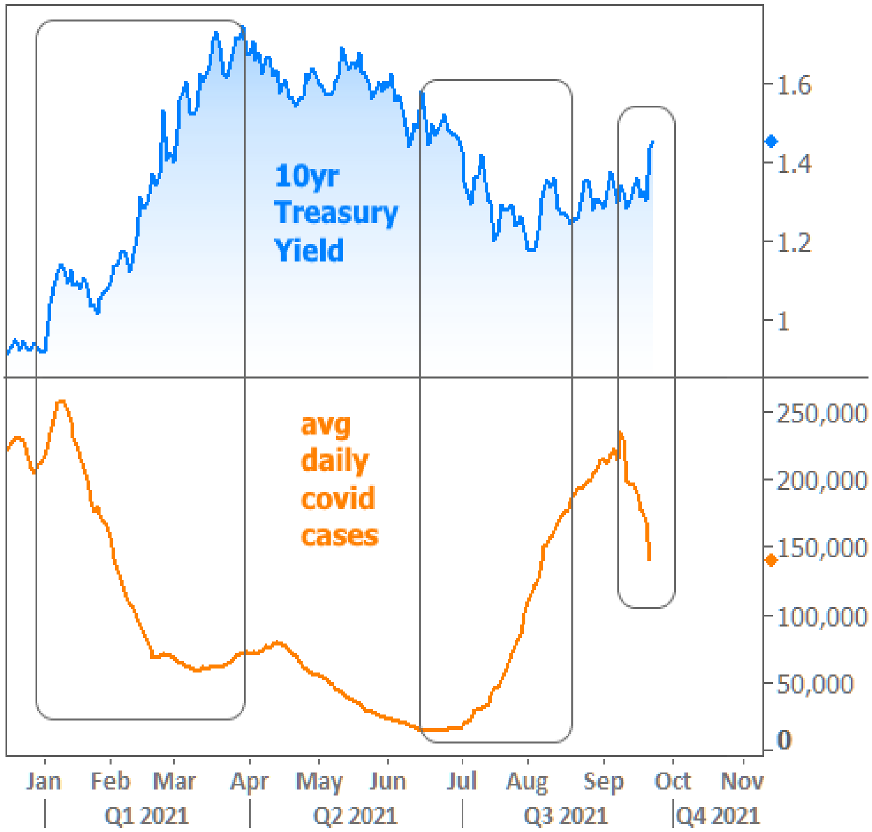
The most basic technical analysis is a line on a chart. Lines can be horizontal to mark key levels where rates have tended to bounce in the past, or they can be drawn along a series of low/high points to track a **trend**. Then when rates break outside one of the lines, traders will either buy or sell depending on their strategy and existing trading positions.

If this is starting to sound familiar, we talked about it quite a bit 2 weeks ago in the newsletter titled "Rate Reckoning Draws Closer" and again in last week's newsletter. By then, rates were already starting to drift higher, but they hadn't yet broken the consolidation range we'd been tracking (NOTE: the following chart is from LAST week).

And **here's how things look now:**

Technicals aside, if we could only choose one impetus for the bond market, covid has ruled all since March 2020. The short-term importance of covid numbers has varied, but traders have been **waiting for late September** for a variety of reasons (far enough into new school year, far enough away from Labor Day testing distortion, and right in line with an important update from the Federal reserve).

In fact, the Fed had previously called out late September for the same reasons. The implication was that if rising case counts were subsiding by late September, the Fed would be that much more likely to curtail (or "**taper**") its rate-friendly bond buying programs.



If the chart above makes it seem like this week's rate spike was fairly benign in the bigger picture, that's because it is. Sure, it's unpleasant, but we were clearly higher earlier this year. Moreover, at any time before covid, current rates would have been **all-time lows**.

The **risk for rates** is that covid and econ data contribute to an ongoing trend toward higher levels. It's still far too soon to throw around terms like "rising rate environment," (a term that implies months if not years of gradually higher rates) but we definitely just shifted gears into a rising rate trend.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Sep 20				
10:00AM	Sep NAHB housing market indx	76	74	75
Tuesday, Sep 21				
8:30AM	Aug House starts mm: change (%)	+3.9		-7.0
8:30AM	Aug Housing starts number mm (ml)	1.615	1.555	1.534
8:30AM	Aug Building permits: number (ml)	1.728	1.600	1.630
8:30AM	Aug Build permits: change mm (%)	6.0		2.3
Wednesday, Sep 22				
7:00AM	w/e MBA Purchase Index	283.9		277.9
7:00AM	w/e MBA Refi Index	3391.1		3185.6
10:00AM	Aug Existing home sales (ml)	5.88	5.89	5.99
10:00AM	Aug Exist. home sales % chg (%)	-2.0		2.0
10:30AM	w/e Crude Oil Inventory (ml)	-3.481	-2.440	-6.422
2:00PM	N/A FOMC rate decision (%)	0 - 0.25	0.125	0.125
2:30PM	Fed Press Conference			

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Thursday, Sep 23				
8:30AM	w/e Jobless Claims (k)	351	320	332
9:45AM	Sep Markit Composite PMI	54.5	58.3	55.4
Friday, Sep 24				
10:00AM	Aug New Home Sales (%) (%)	+1.5		1.0
10:00AM	Aug New Home Sales (ml)	0.740	0.714	0.708
Monday, Sep 27				
8:30AM	Aug Durable goods (%)	1.8	0.7	-0.1
11:30AM	2-Yr Note Auction (bl)	60		
1:00PM	5-Yr Note Auction (bl)	61		
Tuesday, Sep 28				
9:00AM	Jul CaseShiller 20 yy (%)	+19.9	20.0	19.1
9:00AM	Jul Monthly Home Price yy (%)	19.2		18.8
10:00AM	Sep Consumer confidence	109.3	114.5	113.8
1:00PM	7-Yr Note Auction (bl)	62		
Wednesday, Sep 29				
7:00AM	w/e MBA Purchase Index	280.4		283.9
7:00AM	w/e MBA Refi Index	3359.5		3391.1
10:00AM	Aug Pending Home Sales (%)	+8.1	1.4	-1.8
10:00AM	Aug Pending Sales Index	119.5		110.7
Thursday, Sep 30				
8:30AM	Q2 GDP Final (%)	6.7	6.6	6.6
9:45AM	Sep Chicago PMI	64.7	65.0	66.8
Friday, Oct 01				
8:30AM	Aug Core PCE Inflation (y/y) (%)	3.6	3.6	3.6
10:00AM	Sep ISM Manufacturing PMI	61.1	59.6	59.9
10:00AM	Sep Consumer Sentiment (ip)	72.8	71.0	71.0
10:00AM	Sep Sentiment: 1y Inflation (%)	4.6		4.7
10:00AM	Sep Sentiment: 5y Inflation (%)	3.0		2.9
10:00AM	Aug Construction spending (%)	0.0	0.3	0.3

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