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
View My Website

Winter is Coming, But That's Good For Rates

Winter is coming, both literally and figuratively. While the fallout remains to be seen, financial markets are already reacting.

In the literal sense, colder ambient temperatures are generally correlated with increased covid case counts. The following chart shows per capita covid hot spots juxtaposed with a low temp map from 2 weeks prior.

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

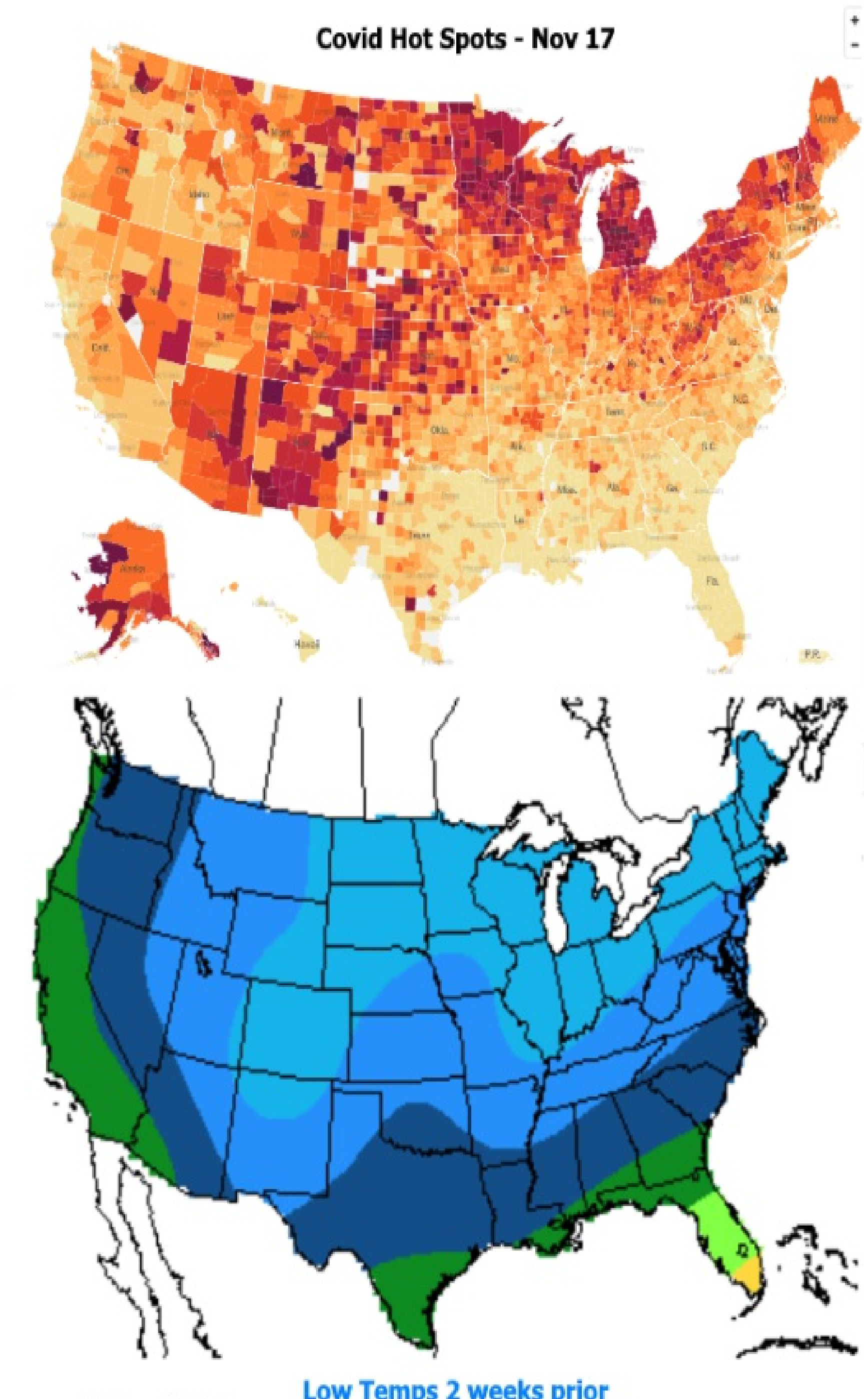
Market Data

	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

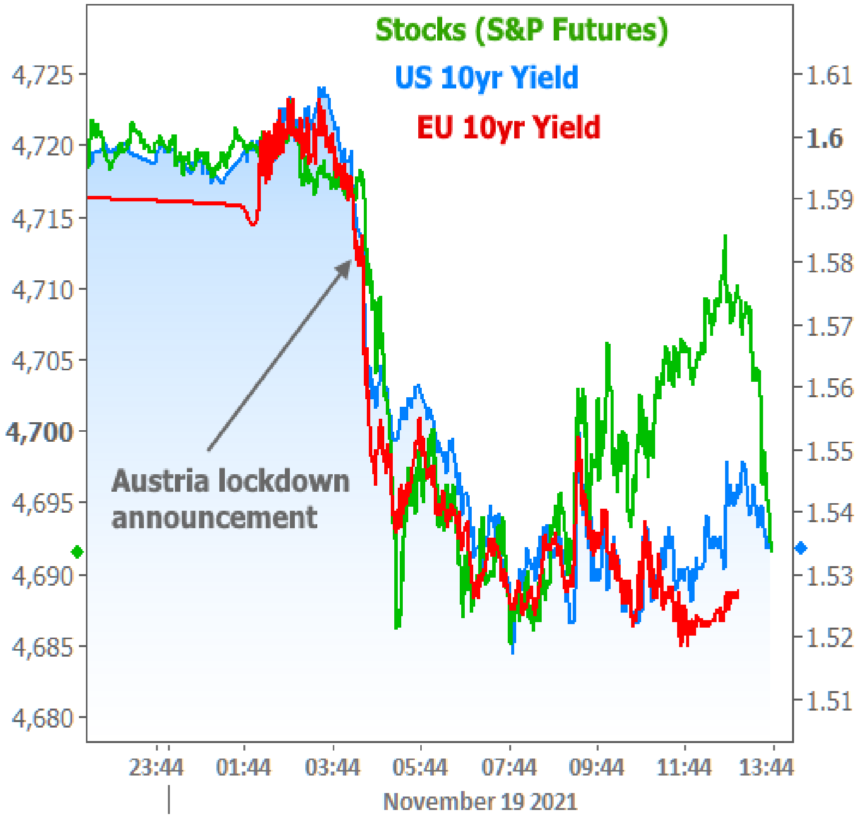
		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



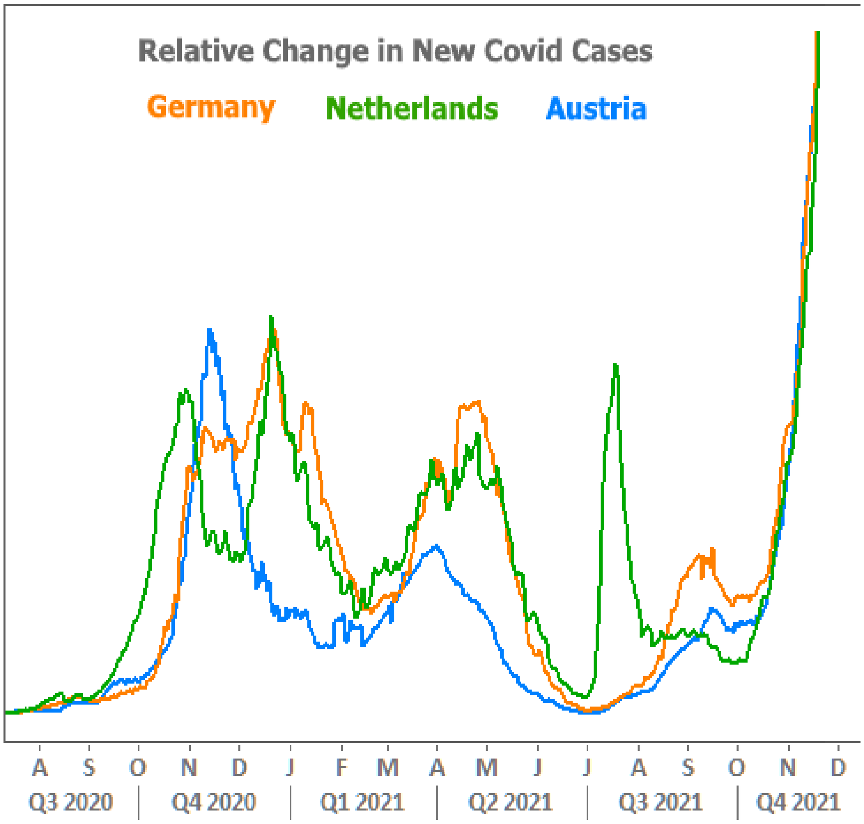
source: NYT and NOAA

Market participants aren't necessarily epidemiologists, but the correlation is simple enough for the average trader to act upon. In this sense, the market is pricing in the metaphorical winter of a slower global economy due to covid-related lockdowns (or other measures that inhibit the free flow of business).

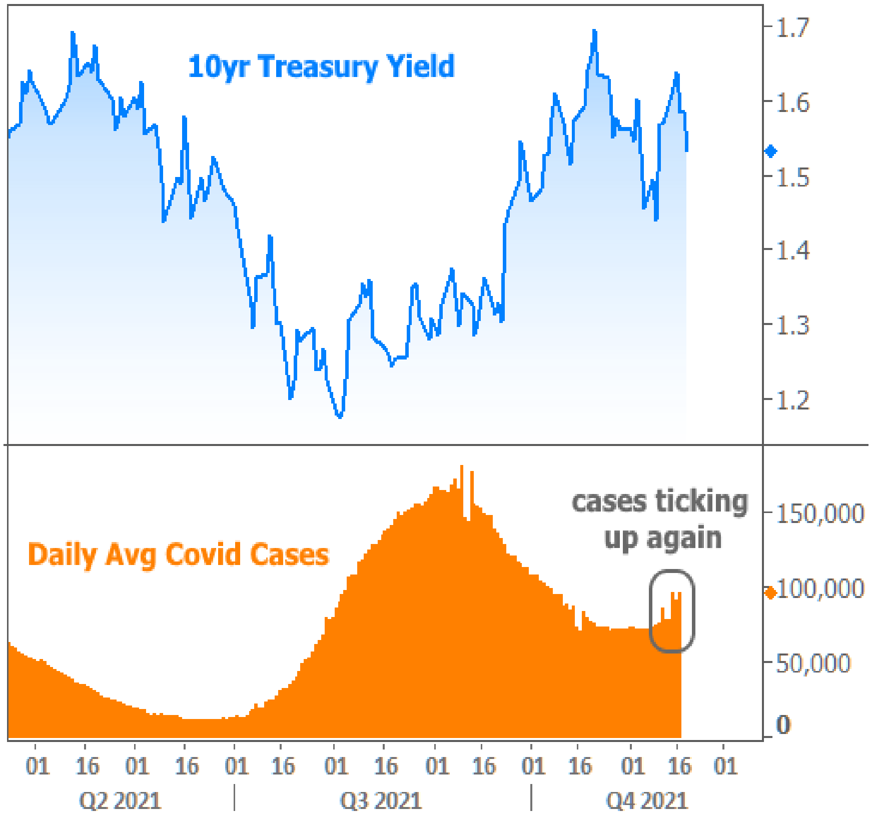
The latest example arrived at the end of the week as Austria announced new lockdown measures and vaccine mandates. Here's how the market reacted:



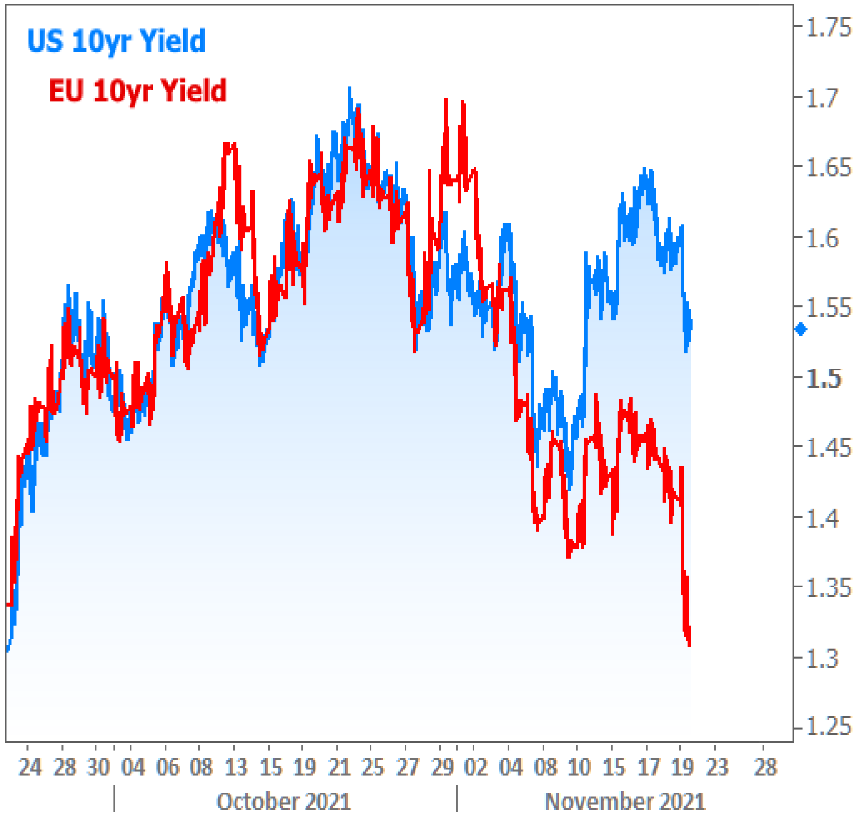
Traders can draw their own conclusions, but they're certainly considering the fact that Austria is not alone in its case count surge.



If it can happen there, it can happen here. The specifics don't even need to line up. The bottom line is that "more covid" = "downward pressure on rates," all other things being equal. That's why we've revisited this chart in recent weeks as declining case counts leveled off and reversed course in the U.S.



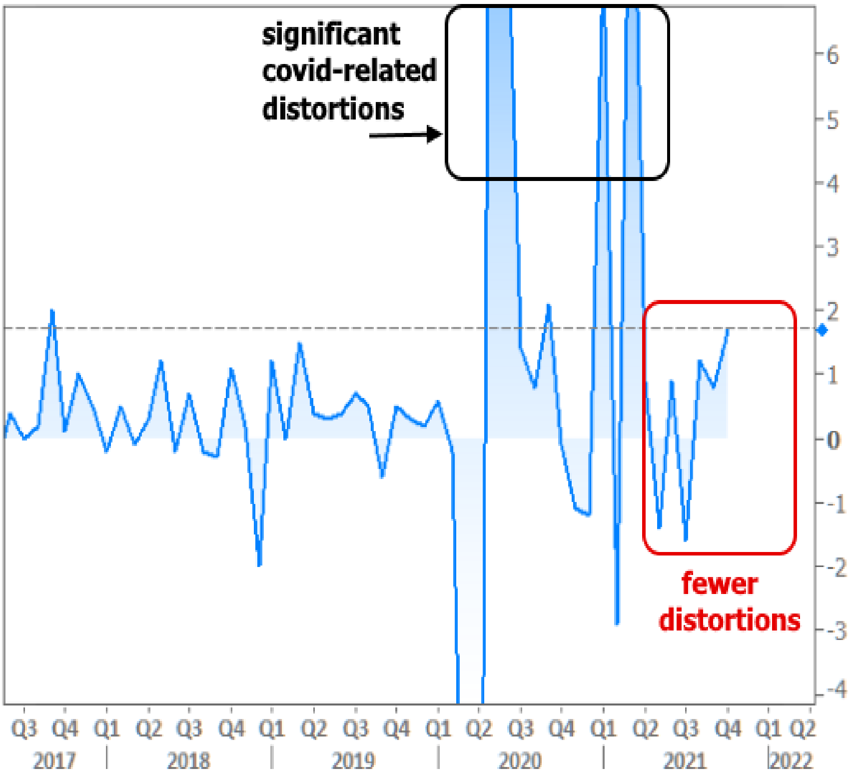
Even if the U.S. remained in better shape than Europe, it's a global economy with interconnected financial markets. Europe has already helped limit the damage that would have otherwise been seen during the most recent run-up in interest rates. If EU yields hadn't been declining in November, US yields likely would have had an easier time revisiting October's levels.

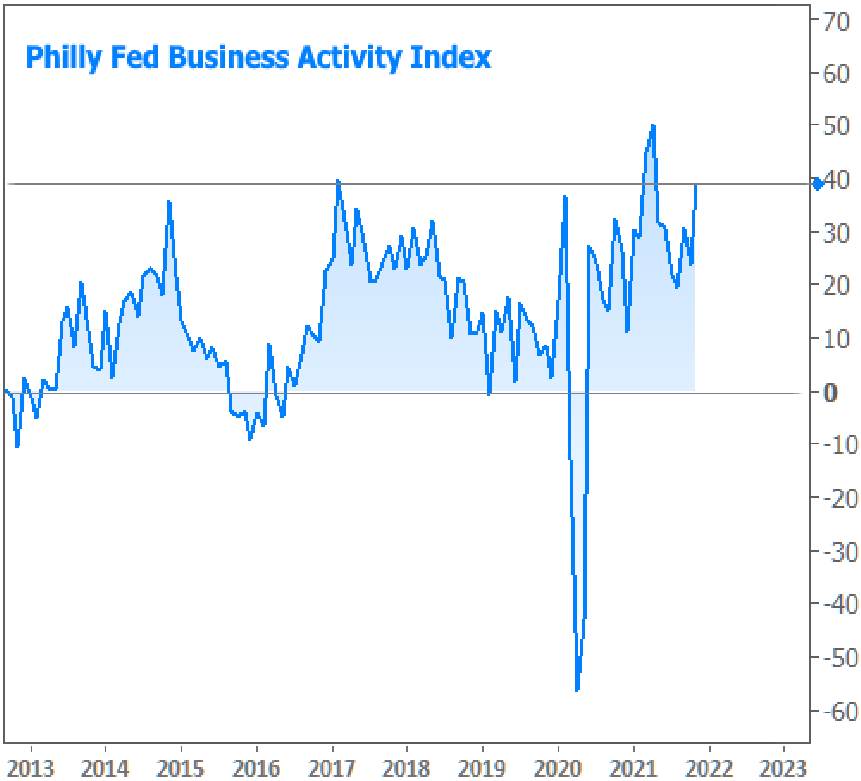


None of the above is to suggest that rates are destined to continue lower. It's simply to explain their resilience. After all, there are several important factors that suggest more upward pressure on rates than we've seen in recent weeks. These include the following, to name a few:

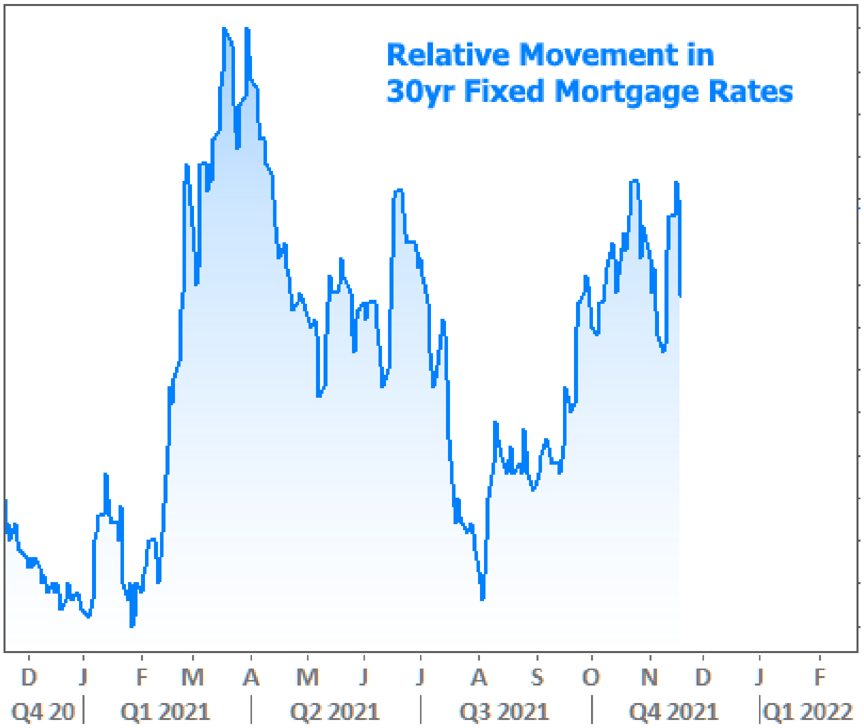
- Fewer bond purchases from the Fed
- More inflation
- Earlier rate hike expectations from the Fed
- An absence of runaway covid numbers in the new school year
- Fiscal policy creating bond market "supply"

In addition, several economic reports have shown faster growth than expected. This week alone, Retail Sales and the Philadelphia Fed's Business Index both came in at historically high levels (notwithstanding the more significant covid-related distortions from earlier in the pandemic).





Mortgage rates began the week in apparent trouble, moving higher at the fastest pace in months, but found their footing by Wednesday. Bond market improvements in the 2nd half of the week help to keep us solidly in the prevailing range, but still well off the summertime lows.



Thanksgiving week brings several mid-tier economic reports as well as home sales data. Treasury will also auction 2, 5, and 7yr notes. The auctions may end up being the biggest sources of volatility if the results are far from expectations. In general, volatility is a bigger risk than normal due to trading conditions associated with the holiday-shortened week (all of the above will be crammed into the first 3 days).

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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