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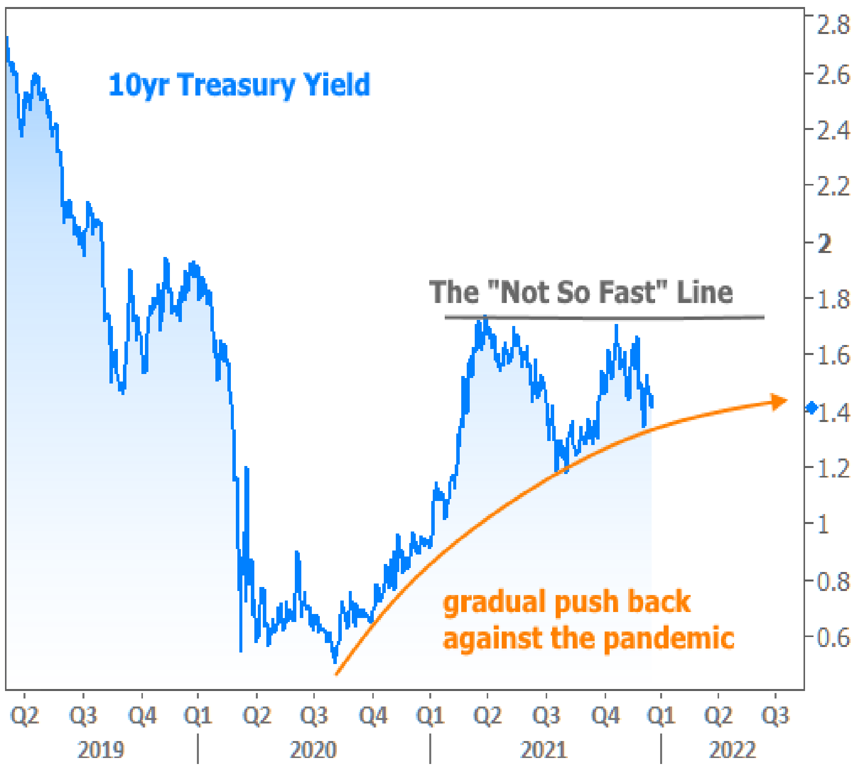
Introducing The "Not So Fast" Line

Sure, we **could** write a headline that attempts to distill the concept of a big picture struggle between the forces exerting upward pressure on rates and those stepping in to push back in the other direction. Or we could just introduce the "not so fast" line, and let a chart do the talking.



Lines like these are over-generalizations to some extent, but as long as we understand that there are multiple factors in play each time rates bounce on the floor or ceiling, it doesn't matter. All we're **really** trying to do is **visualize** the gradual recovery from the pandemic and the setbacks that have pushed rates back in the other direction.

Thinking about the more recent past, rates have been reluctant to move below the orange line due to things like **higher inflation** and tougher **central bank policies**. General progress against the pandemic was more relevant to the orange line in Oct/Nov, but the emergence of Omicron means the pandemic is once again putting downward pressure on rates.

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

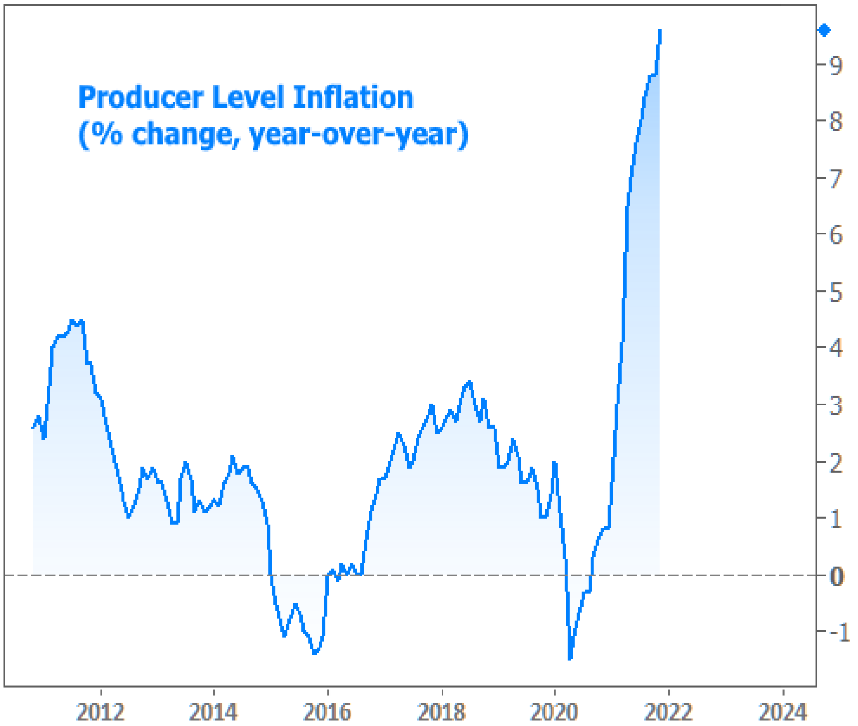
	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.4079	+0.0099
30 YR Treasury	4.5755	+0.0115

Pricing as of: 6/30 8:45PM 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%

All of the above showed up in charts at various points this week. Yields (aka "rates") surged lower to start the week as the weekend's omicron news stirred up concerns about economic impacts and risk aversion in financial markets. Another inflation report showed the highest levels in decades. The Fed and other central banks made policy updates that caused **brief** upward pressure for rates before pandemic-related news said "not so fast" by the end of the week.



In the chart above, "Fed" refers to the scheduled policy announcement from the Federal Reserve. The Fed announced that it would be decreasing its monthly bond purchases at an **even faster** pace. While this wasn't unexpected, it was unprecedented. There was also some uncertainty about how big the change would be, and the Fed chose the faster option (i.e. less friendly for interest rates).

Rounding out Wednesday's bad news for rates, updated Fed forecasts showed a **big shift** in the outlook for rate hikes with the median view of the Fed Funds Rate now at **0.75-1.0%** by end of 2022, up from 0.0-0.25% last time. Here too, the results were not unexpected, but the shift toward a higher rate mentality was surprisingly unanimous compared to previous forecasts.

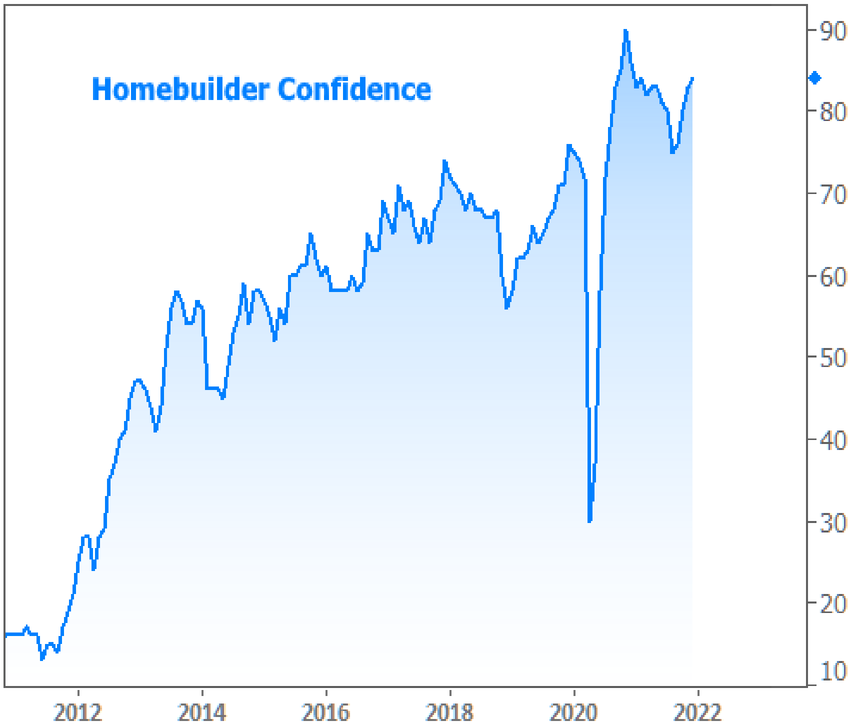
One day later, the **Bank of England** unexpectedly hiked its policy rate. Most market participants expected them to wait for the next meeting due to surging covid numbers in the UK. **The European Central Bank** (ECB) didn't rock the boat much, but the net effect was still negative for bonds/rates.

Despite the headwinds from central banks, rates spent most of the day on Friday at the **lowest** levels of the week. At first glance, this is an impressive level of resilience for the bond market, but it's probably best viewed as a sign of the times. The week's stock market gyrations tell the same story. Stocks fell early and late in the week with covid-related headlines being the most prevalent explanation.

In the bigger picture, the important thing to understand about the "not so fast" line is that it represents one side of a consolidation pattern. It presents a case for fear and caution while the orange recovery line makes the opposite case. Rates won't remain stuck in the middle forever. As tired as we all may be about deferring to the same old scapegoat, the direction of the breakout will most likely be informed by how things go with the pandemic.

In other less consequential (but still potentially interesting) news/data from this week, new housing construction increased by 11.8% in November. The total number of "housing starts" was very close to long-term highs.

Unsurprisingly then, builder confidence also remained in good shape, per the NAHB's Housing Market Index.



Next week is fairly slow and much-abbreviated due to the Christmas holiday. Markets will be closed all day on 12/24 and open for only a half day on 12/23. The following week is notorious for light participation and a high variety of trading motivations in financial markets. As such, we won't get a clean look at underlying market momentum until early January.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Dec 14				
8:30AM	Nov Producer Prices (%)	+0.8	0.5	0.6
8:30AM	Nov Core Producer Prices YY (%)	+7.7	7.2	6.8
Wednesday, Dec 15				
7:00AM	w/e MBA Purchase Index	297.2		295.2
7:00AM	w/e MBA Refi Index	2350.5		2511.5
8:30AM	Nov Retail Sales (%)	0.3	0.8	1.7
8:30AM	Nov Import prices mm (%)	0.7	0.7	1.2
8:30AM	Dec NY Fed Manufacturing	31.9	25.00	30.90
10:00AM	Dec NAHB housing market indx	84	83	83
2:00PM	N/A FOMC rate decision (%)	0.000 - 0.250	0.125	0.125
2:30PM	Powell Press Conference			
Thursday, Dec 16				
8:30AM	Nov House starts mm: change (%)	11.8		-0.7
8:30AM	Dec Philly Fed Business Index	15.4	30.0	39.0

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Nov Build permits: change mm (%)	3.6		4.2
8:30AM	Nov Housing starts number mm (ml)	1.679	1.568	1.520
8:30AM	Nov Building permits: number (ml)	1.712	1.663	1.653
8:30AM	w/e Jobless Claims (k)	206	200	206
9:15AM	Nov Industrial Production (%)	0.5	0.7	1.6
9:45AM	Dec Markit Composite PMI	56.9		57.2
Monday, Dec 20				
10:00AM	Nov Leading index chg mm (%)	+1.1	0.9	0.9
Wednesday, Dec 22				
7:00AM	w/e MBA Purchase Index	287.5		297.2
7:00AM	w/e MBA Refi Index	2402.7		2350.5
8:30AM	Q3 GDP Final (%)	2.3	2.1	2.1
10:00AM	Nov Existing home sales (ml)	6.46	6.52	6.34
10:00AM	Nov Exist. home sales % chg (%)	+1.9		0.8
10:00AM	Dec Consumer confidence	115.8	110.8	109.5
Thursday, Dec 23				
8:30AM	Nov Core PCE Inflation (y/y) (%)	4.7	4.5	4.1
8:30AM	Nov Durable goods (%)	2.5	1.6	-0.4
10:00AM	Nov New Home Sales (ml)	0.744	0.770	0.745
10:00AM	Dec Consumer Sentiment (ip)	70.6	70.4	70.4
10:00AM	Nov New Home Sales (%) (%)	12.4		0.4

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