



**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](mailto:mike@rateshopkc.com)  
[View My Website](#)

## Fed May Be Hiking in March, But Higher Rates Are Here Today

In the past 2 weeks, press coverage of the Federal Reserve's policy outlook has ramped up significantly. The Fed is now expected to start **hiking rates in March** and to hike more than previously expected in 2022. If you think that gives you time to get a mortgage before rates go up, think again.

While Fed policy has an impact on the entire financial market, the only major rate they control is the Fed Funds Rate--an overnight rate that applies to the shortest term borrowing between large financial institutions. That's a **distinctly different animal** than mortgage rates.

The Fed Funds Rate is currently expressed as a target range between 0% and 0.25% also known as the **lower bound** or simply "zero." In 2015, the Fed managed to embark on a series of hikes culminating in a 2.25-2.50% range by the end of 2018, but from 2009 through most of 2015, it was also at the lower bound.

Despite that, mortgage rates found a way to **jump by more than 1%** in less than 2 months in the middle of 2013 (a brutally fast move in the mortgage world). The culprit was the taper tantrum: the market's reaction to the Fed signaling that it was considering winding down (or "tapering") its rate-friendly asset purchases.

The most sincere tapering threats began in May 2013. Fed policy officially mentioned tapering on June 19. By the first week in July, the damage was done. It was **almost 6 months later** before the Fed officially announced the tapering plan, and almost another 2 years before they finally lifted rates from the zero lower bound.

## National Average Mortgage Rates



	Rate	Change	Points
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### 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	4.4064	+0.0084
30 YR Treasury	4.5755	+0.0115

Pricing as of: 6/30 8:47PM EST

## Recent Housing Data

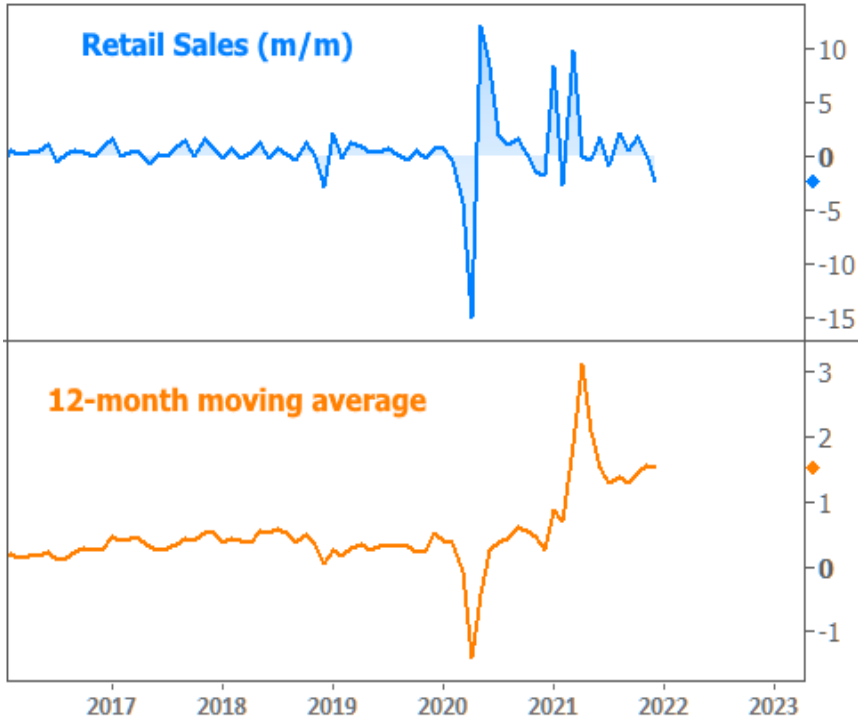
		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



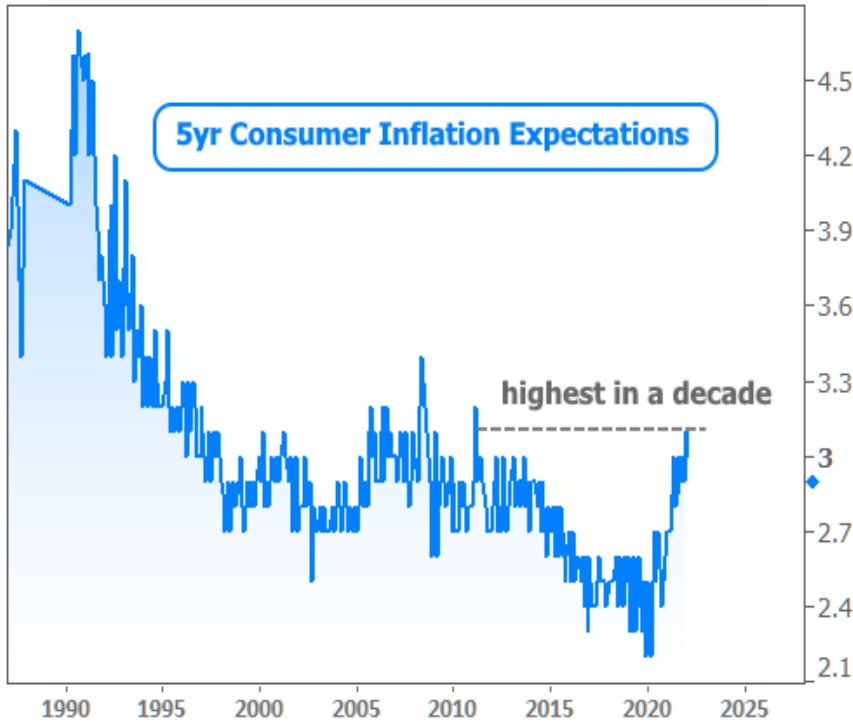
Things are **different** this time around, and we're **not** likely to see rates spike abruptly as they did in the past. But in relative terms, this winter is the modern day equivalent of the taper tantrum months in 2013. There was [plenty to discuss on this topic last week](#), which had already taken rates to their highest levels in nearly 2 years.

This week initially brought a brief **respite** from the chaos. Rates were slightly higher on Monday, but fell over the next 2 days. Thursday was mixed, but still strong enough to hold out hope that rates had found their near-term ceiling.

**Then came Friday.** It began with a sliver of hope. Retail Sales (an important economic report) came in weaker than expected. That's not good for the economy, but interest rates tend to benefit from bad economic news. Nonetheless, the bond market (which dictates rates) barely budged. One theory is that traders can look past month-to-month volatility when sales have been generally much higher than normal. Even now, the 12 month average of Retail Sales is 1.5%, roughly double the highest pre-covid levels.



Caveats aside, there may not have been a low enough number to save rates. Traders are interested in other data because **the Fed** is interested in other data--specifically: **inflation**. 90 minutes after the Retail Sales data, the Consumer Sentiment Survey showed the highest inflation expectations in more than a decade. This is a metric the Fed often mentions as being important to the outlook.



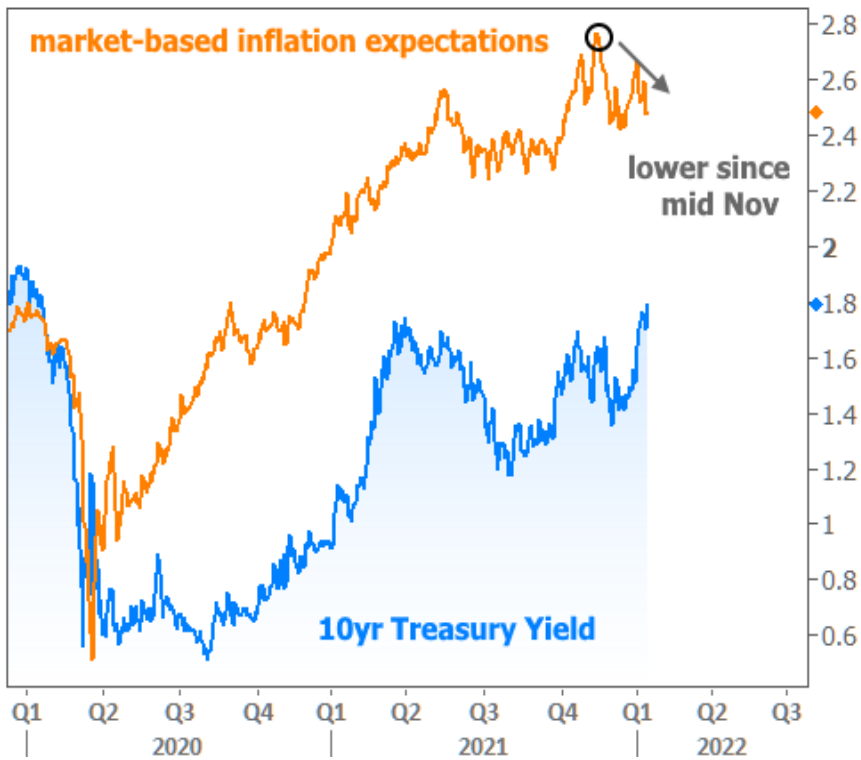
So was it the Sentiment data that tanked the bond market and sent rates screaming higher on Friday?

It probably didn't help, but it wasn't the culprit. After all, 2 days prior, the Consumer Price Index--one of the two biggest

inflation reports in the US--sent a similar message.



Despite the scary chart above, there very little bond market drama on Wednesday. Moreover, the most responsive gauge of inflation fear (market-based inflation expectations derived from bond trading) is well off November's highs. It didn't even increase after Friday's Consumer Sentiment data.

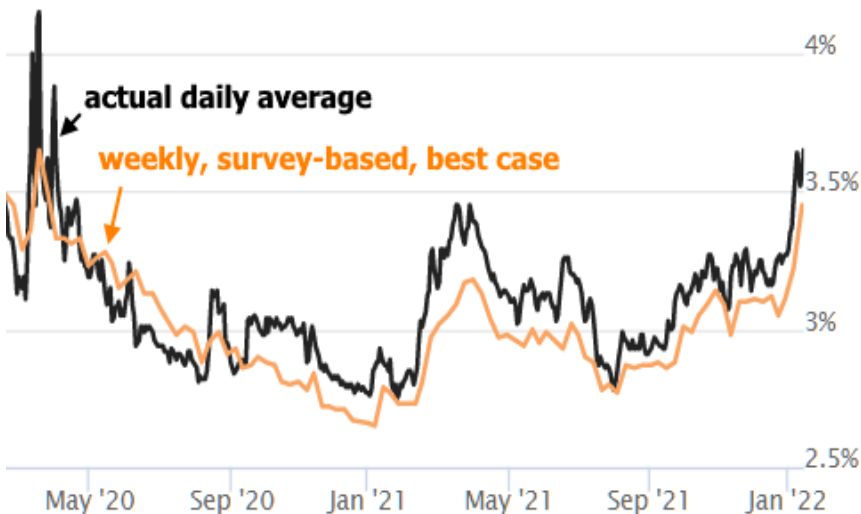


So why did rates spike on Friday?

This is actually a bit of a trick question. Rates have been rising in general since late 2020. The current rate spike really began last week. The first 4 days of the week were mostly a lull in the bigger picture. They had a chance to be the start of a bigger reversal, but ultimately revealed themselves to be a breath-catching exercise before more pain. **In other words, it was a trap-**at least for anyone hoping that rates would do something better than catch their breath.

The response is varied among mortgage lenders in terms of scope and timing, but on average, 30yr fixed rates are nearly 3/8ths of a point higher in the first 2 weeks of 2022. Even the notoriously stale but widely-cited Freddie Mac weekly rate survey **mostly** caught up to reality with their biggest jump since the start of the pandemic.

### 30yr Fixed Mortgage Rates



#### Is there any hope? Will rates continue higher and higher?

There's always hope. It's just a question of when it's justified. In the short term, optimists might consider that the Friday before 3-day weekends is often a day for big moves in the bond market that are subsequently moderated when traders are back in the office. Additionally, let 2013 serve as an example that the bond market is already doing its best to get ahead of future Fed moves. To be fair, that process may be far from over, but the point is that it has clearly been underway in various forms for quite some time.

In terms of events that will inform the outlook, after a bit of a lull next week, attention turns to the next Fed announcement on Wednesday, January 26th. This won't be a venue for any policy changes, but it will give the Fed a chance to update its official verbiage in light of recent market volatility, geopolitical risks, and the omicron surge.

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#### Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Jan 10</b>				
10:00AM	Nov Wholesale inventories mm (%)	1.4	1.2	1.2
<b>Tuesday, Jan 11</b>				
10:30AM	Powell Renomination Testimony			
1:00PM	3-Yr Note Auction (bl)	52		

#### Event Importance:

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

Date	Event	Actual	Forecast	Prior
<b>Wednesday, Jan 12</b>				
7:00AM	w/e MBA Purchase Index	283.4		277.3
7:00AM	w/e MBA Refi Index	2349.8		2351.3
8:30AM	Dec Core CPI (Annual) (%)	5.5	5.4	4.9
8:30AM	Dec CPI (annual) (%)	7.0	7.0	6.8
8:30AM	Dec Consumer Price Index (CPI) (%)	0.5	0.4	0.8
10:30AM	w/e Crude Oil Inventory (ml)	-4.553	-1.904	-2.144
1:00PM	10-yr Note Auction (bl)	36		
<b>Thursday, Jan 13</b>				
8:30AM	Dec Producer Prices (%)	+0.2	0.4	0.8
8:30AM	Dec Core Producer Prices YY (%)	+8.3	8.0	7.7
8:30AM	w/e Jobless Claims (k)	230	200	207
8:30AM	w/e Continued Claims (ml)	1.559	1.733	1.754
1:00PM	30-Yr Bond Auction (bl)	22		
<b>Friday, Jan 14</b>				
8:30AM	Dec Retail Sales (%)	-1.9	0.0	0.3
8:30AM	Dec Import prices mm (%)	-0.2	0.3	0.7
9:15AM	Dec Industrial Production (%)	-0.1	0.3	0.5
10:00AM	Jan 1yr Inflation Outlook (%)	4.9		4.8
10:00AM	Jan 5yr Inflation Outlook (%)	3.1		2.9
10:00AM	Jan Consumer Sentiment	68.8	70.0	70.6
<b>Monday, Jan 17</b>				
12:00AM	Martin Luther King Jr. Day			
<b>Tuesday, Jan 18</b>				
8:30AM	Jan NY Fed Manufacturing	-0.7	25.00	31.90
10:00AM	Jan NAHB housing market indx	83	84	84
<b>Wednesday, Jan 19</b>				
7:00AM	w/e MBA Purchase Index	305.7		283.4
7:00AM	w/e MBA Refi Index	2276.3		2349.8
8:30AM	Dec House starts mm: change (%)	1.4		11.8
8:30AM	Dec Housing starts number mm (ml)	1.702	1.650	1.679
8:30AM	Dec Build permits: change mm (%)	9.1		3.9
8:30AM	Dec Building permits: number (ml)	1.873	1.701	1.717
<b>Thursday, Jan 20</b>				
8:30AM	Jan Philly Fed Business Index	23.2	20.0	15.4
10:00AM	Dec Existing home sales (ml)	6.18	6.44	6.46
10:00AM	Dec Exist. home sales % chg (%)	-4.6		1.9
<b>Friday, Jan 21</b>				
10:00AM	Dec Leading index chg mm (%)	+0.8	0.8	1.1

## 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**

