



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](#)

Staggeringly Big Rate Swings as Markets Remain Focused on Ukraine

Financial markets were already dealing with rapidly evolving Fed policy shifts, a big jump in rates, and a big drop in stocks. But after Russia invaded Ukraine, volatility has been on **another level**.

As far as the mortgage market is concerned, the **average 30yr fixed rate** experienced some of its biggest 2-way swings in more than a decade. The following chart shows the **change** in rates every 48 hours. This makes things more interesting because big moves in rates often take more than a day to play out.

That was the case at the start of this week as the combination of Monday and Tuesday brought the **biggest** 48hr drop in rates since our daily record keeping began in 2009. The only exception would be March 2020, and there are several good reasons to keep March 2020 out of comparisons.

To make the volatility demonstration **even more impressive**, by Thursday rates had moved higher at the fastest pace since 2013 (again, excluding March 2020). In fact, there was little change between Wed and Thu, so the big bounce back actually happened in only one day.

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

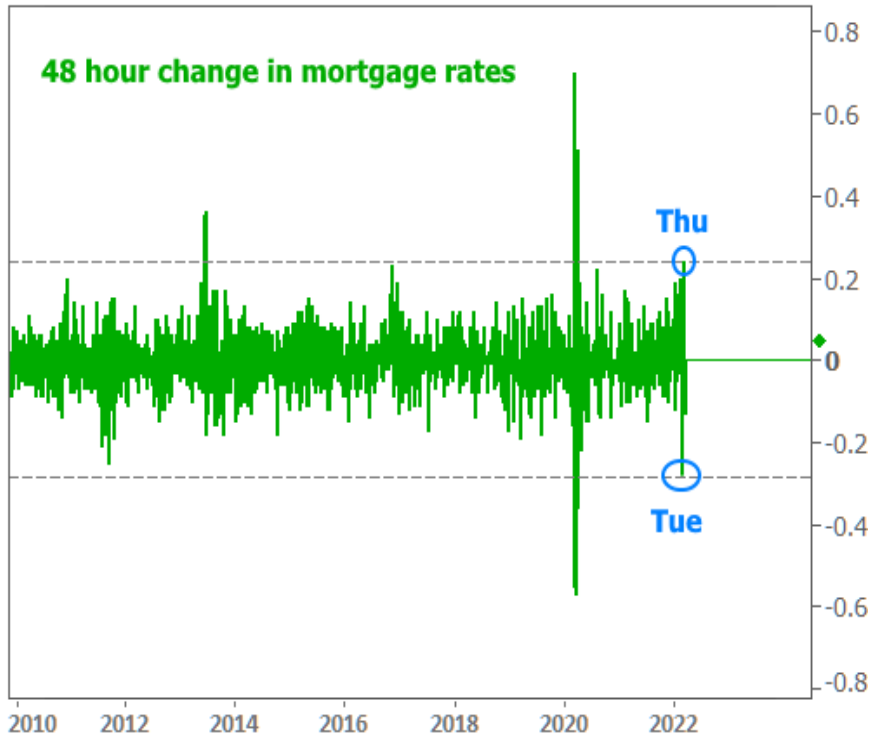
Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3980	+0.1111
30 YR Treasury	4.5640	+0.1383

Pricing as of: 6/28 5:59PM 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%

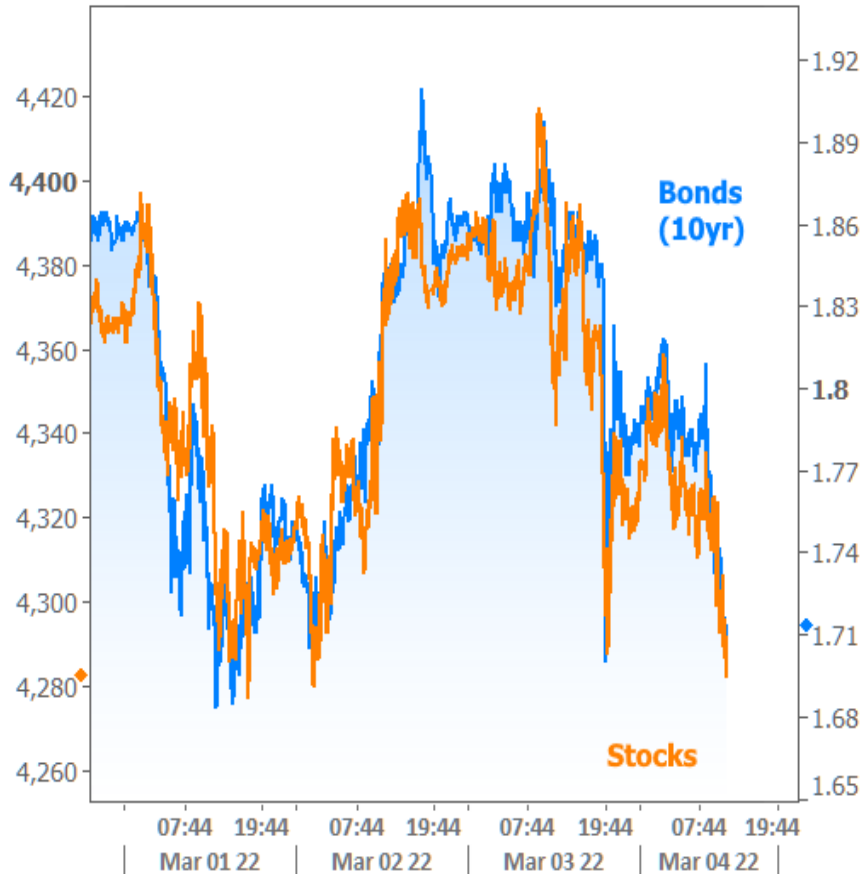


This means that prospective borrowers who chatted with loan officers about the recently lower rates on Tuesday were in for an unpleasant surprise less than a day later. Fortunately, things settled down very nicely by the end of the week, but it was a wild ride getting there.

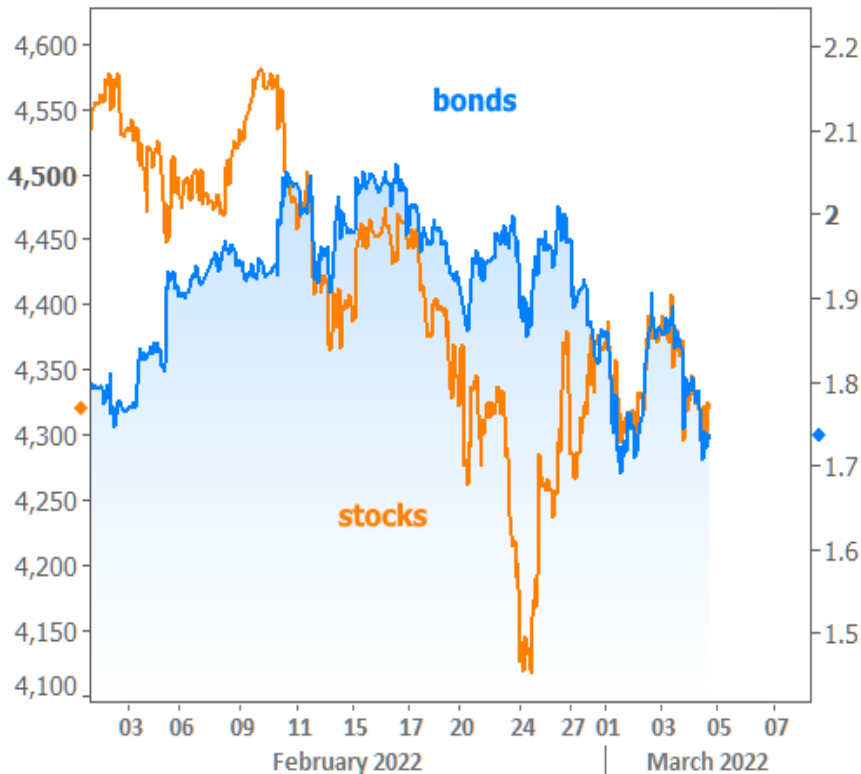
How is the Ukraine invasion causing this volatility?

The easiest way to think about Ukraine's market impact is via the simple notion of **risk**. Generally speaking, high stakes geopolitical events create buying demand for safe haven assets like bonds and selling demand for riskier assets like stocks. Because bond yields fall when demand increases, the result is stock prices and bond yields moving together. During a fluid, highly uncertain situation such as the one in Ukraine, the market may rapidly alternate between hope and fear, risk aversion and risk tolerance.

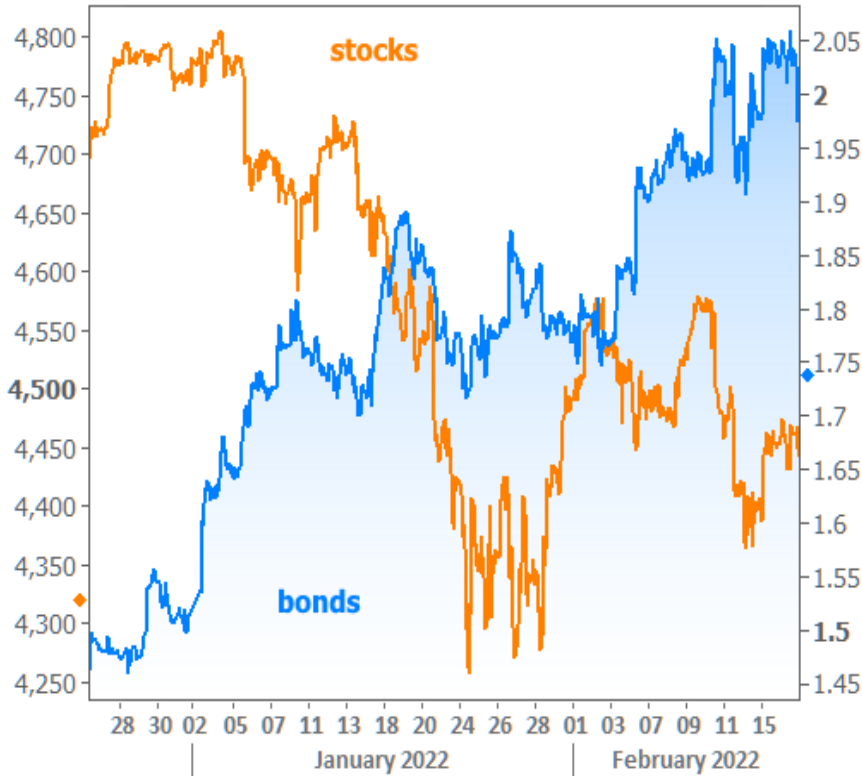
That's exactly what happened during most of this week.



As always, changing the time frame and y-axis scaling can highlight different trends. While the past 4 days line up quite well, if we zoom out on the same chart, the message changes a bit:



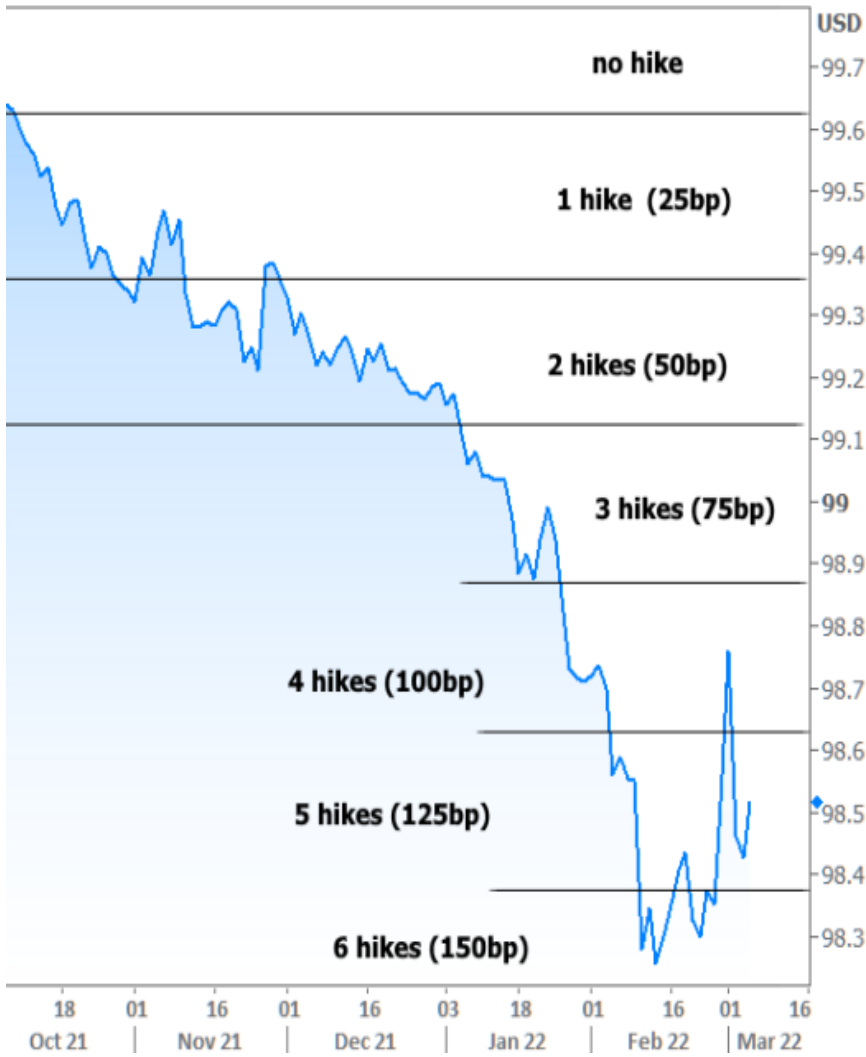
Even on the 2nd chart, the lines have mostly been moving in the same direction since the first invasion warning in early February. This isn't always the case, as can easily be seen if we zoom in on the previous month of trading. In fact, we see stocks generally **falling** while bond yields are **rising**:



What's up with that?

Stocks and bonds were moving in opposite directions in January because the market was adjusting to a less friendly Fed policy outlook. This hurt both at the same time. The fact that markets were highly focused on Fed policy **before** the invasion resulted in widespread questions as to whether anything about the Fed outlook might change in light of geopolitical risks.

Those questions are easiest to answer with a chart of Fed Funds Futures--financial instruments that allow the market to bet on the level of the Fed Funds Rate at a certain future date. The lower the line, the higher the market thinks the Fed's rate will be. Here's how the market has been betting on the Fed's rate by the end of 2022 (note: 25bp = 0.25%):



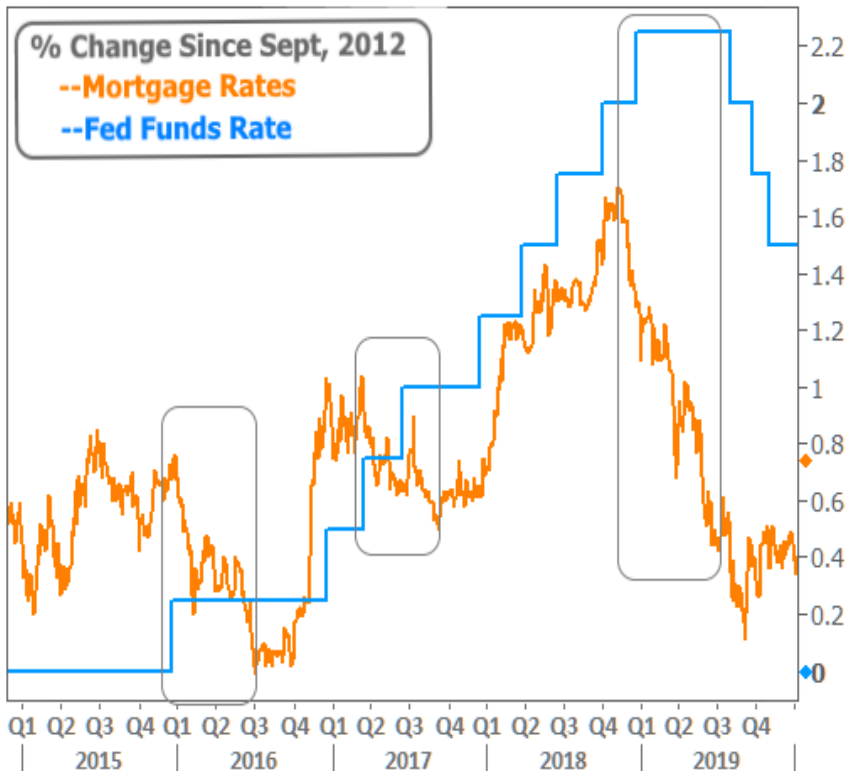
The chart above suggests the Ukraine invasion caused a **legitimate shift** in the Fed rate hike outlook, and it temporarily caused a **gigantic** shift early this week. Fed Chair Powell spoke to those expectations in scheduled congressional testimony this week. He confirmed that the outcome in Ukraine could impact Fed policy in a variety of ways, but more so in the way that wind causes ripples on the water. The underlying current, however, continues inexorably toward multiple rate hikes by the end of the year.

Are those rate hikes bad for mortgage rates?!

This question is also best answered with a chart. It shows the change in the Fed Funds Rate (the thing everyone's talking about when they say "the Fed is hiking rates!") versus the change in 30yr fixed mortgage rates since September 2012.

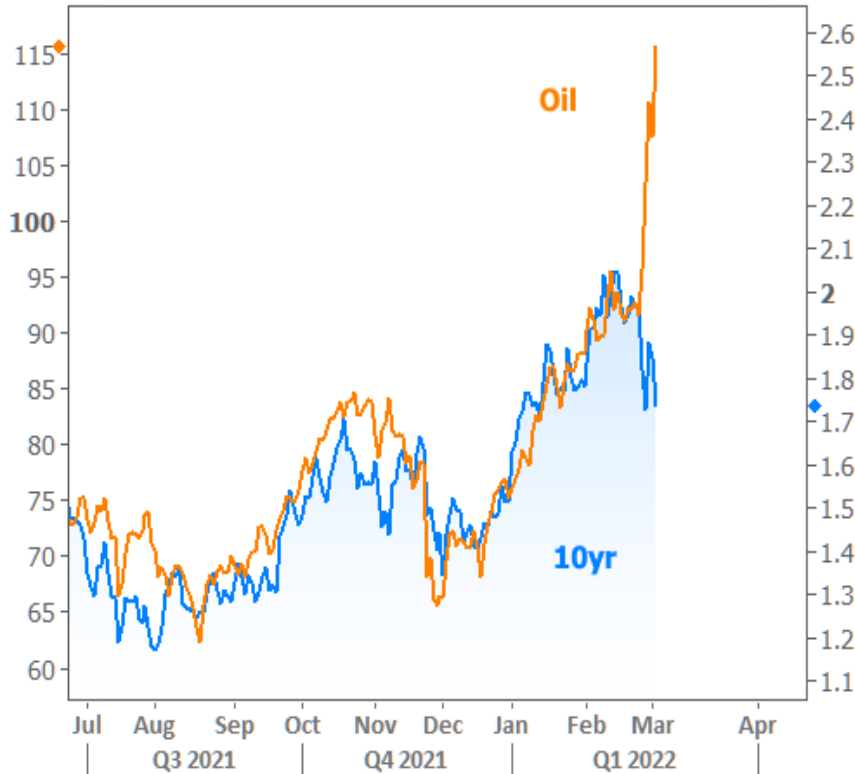


The big spike in 2013 was the market's way of **preparing** for the Fed's **eventual** policy tightening. The process was painful, but it only took several months, and then it was over. Rates moved generally **lower** for the next 3 years. The rising rate trend in 2017 and 2018 was a bit more complex, but it had very little to do with the ratcheting up of the Fed Funds Rate. Moreover, there are several obvious examples of mortgage rates **falling** even as the Fed kept **hiking**.



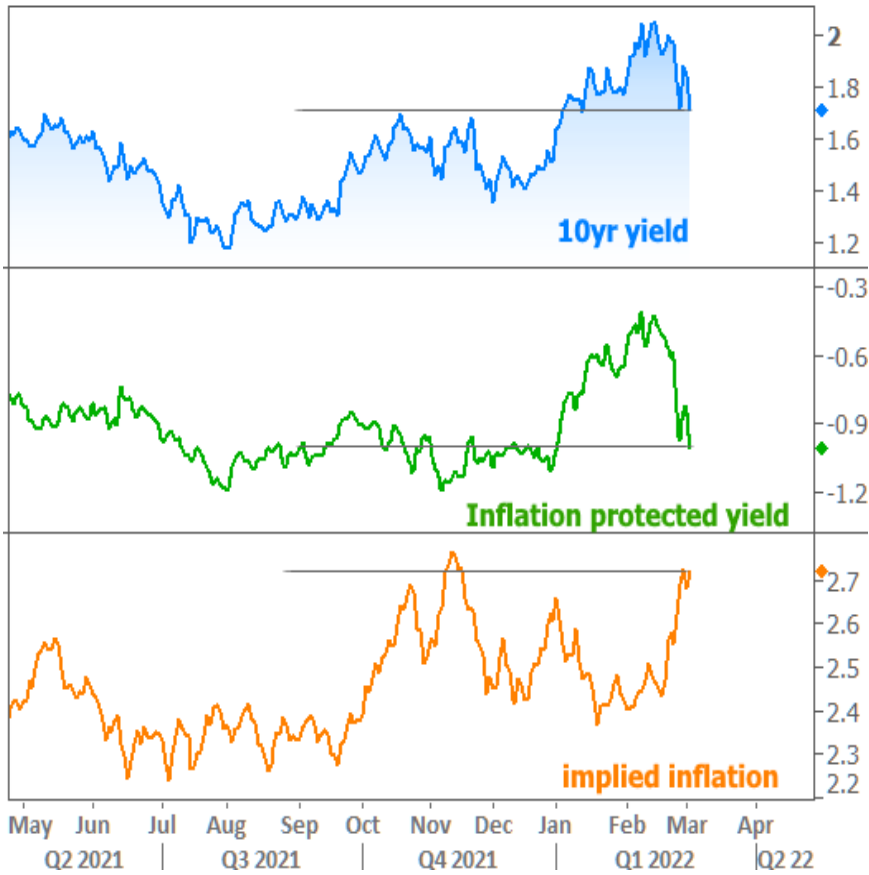
So the question is **not** whether or not the Fed Funds Rate affects mortgage rates, but rather, whether the mortgage market has already adjusted enough to account for Fed policy changes. **The answer?** It depends (doesn't it always?) on how things go with the economy both at home and abroad. **Inflation** is the focal point in this uncertainty. More inflation means faster Fed rate hikes and vice versa.

That brings us **full circle** with the Ukraine-related rate volatility. The bond market has been pulled in two directions this week because the invasion has caused a huge spike in oil prices. While oil by no means dictates rate momentum, it **does** have a lot to say about inflation. As such, when the bond market is intently focused on inflation, oil prices and bond yields tend to line up fairly well as seen in the chart below.



Clearly, the correlation between oil and bond yields broke down after the Ukraine invasion, but it's not because bonds stopped caring about the inflation impact. Rather, investor demand for the **safe haven** provided by bonds was so high that it simply **outweighed** the inflation implications. Thanks to the existence of inflation-indexed bonds, we can actually see both of these impacts play out separately.

The following chart shows regular old 10yr Treasury Yields in blue and the inflation-adjusted yield in green (where the 10yr would be if not for inflation). Subtracting one from the other gives us implied inflation (in orange), as seen by traders who are actually betting on it.



Long story short, the bigger visual drop in the green line versus the blue line gives us a better idea of how much demand has flowed into the bond market recently while the orange line confirms the oil price spike is indeed pushing inflation expectations higher.

Bringing it all together, if the Fed is in the process of tightening policy due to inflation, the Ukraine invasion doesn't really do much to change their mind. Fortunately, as we've seen, mortgage rates had already done a lot of the work of moving to higher levels in anticipation of the Fed's tightening cycle. Granted, they weren't necessarily done, but the gravity of the Ukraine invasion provided an obvious opportunity to take a break.

On that note, in case it needs to be said, although we like low rates, we definitely don't like everything that pushes rates lower (in fact, most of the time, it's the bad stuff). It's the nature of the this type of analysis to find ourselves discussing horrible events in the same sentence that we welcome a drop in mortgage rates. We'd **gladly** give up the recent rate rally to put an end to the violence.

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

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Feb 28				
9:45AM	Feb Chicago PMI	56.3	63.0	65.2
Tuesday, Mar 01				
10:00AM	Feb ISM Manufacturing PMI	58.6	58.0	57.6

Event Importance:

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

Date	Event	Actual	Forecast	Prior
10:00AM	Jan Construction spending (%)	1.3	0.2	0.2
Wednesday, Mar 02				
7:00AM	w/e MBA Purchase Index	246.3		250.7
7:00AM	w/e MBA Refi Index	1685.7		1677.7
8:15AM	Feb ADP National Employment (k)	475	388	-301
10:00AM	Powell Testimony			
Thursday, Mar 03				
8:30AM	w/e Jobless Claims (k)	215	225	232
8:30AM	w/e Continued Claims (ml)	1.476	1.475	1.476
10:00AM	Feb ISM N-Mfg PMI	56.5	61.0	59.9
10:00AM	Powell Testimony			
Friday, Mar 04				
8:30AM	Feb Average workweek hrs (hr)	34.7	34.6	34.5
8:30AM	Feb Average earnings mm (%)	0.0	0.5	0.7
8:30AM	Feb Unemployment rate mm (%)	3.8	3.9	4.0
8:30AM	Feb Non-farm payrolls (k)	678	400	467
Tuesday, Mar 08				
10:00AM	Jan Wholesale inventories mm (%)	0.8	0.8	0.8
1:00PM	3-Yr Note Auction (bl)	48		
Wednesday, Mar 09				
7:00AM	w/e MBA Purchase Index	267.6		246.3
7:00AM	w/e MBA Refi Index	1829.7		1685.7
Thursday, Mar 10				
7:45AM	ECB Statement (Press Conf. 830am)			
8:30AM	Feb Consumer Price Index (CPI) (%)	0.8	0.8	0.6
8:30AM	Feb Core CPI (Annual) (%)	6.4	6.4	6.0
8:30AM	Feb CPI (annual) (%)	7.9	7.9	7.5
Friday, Mar 11				
10:00AM	Mar 1yr Inflation Outlook (%)	5.4		4.9
10:00AM	Mar 5yr Inflation Outlook (%)	3.0		3.0
10:00AM	Mar Consumer Sentiment	59.7	61.4	62.8
Tuesday, Apr 12				
1:00PM	10-yr Note Auction (bl)	34		
Wednesday, Apr 13				
1:00PM	30-Yr Bond Auction (bl)	20		

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

