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Rates Bounce After Hitting 2 Month Lows

Interest rates were remarkably calm in the last week of March. The market was in the process of shifting focus from the banking sector back to economic data. It just so happened that last week was light on data. This week was quite the opposite.

The first week of any given month often brings several of the most meaningful monthly economic releases. These include reports from the Institute for Supply Management (ISM) and most notably, the Employment Situation (more commonly referred to as "the jobs report").

Virtually all of the economic data that came out in the first 3 days of the week was good for bonds/rates. In other words, the data was weaker than expected. Bonds benefit from weak data because a slower economy is less capable of sustaining growth and inflation--two of the main pillars of interest rates.

As expected, bonds were eager to get some actionable economic updates and rates wasted no time responding to downbeat news from ISM. There are two flavors of ISM Purchasing Managers Indices (PMIs). Each can be thought of as a broad barometer for growth in the corresponding sector where anything over 50 is good/growing and anything under 50 signals contraction.

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

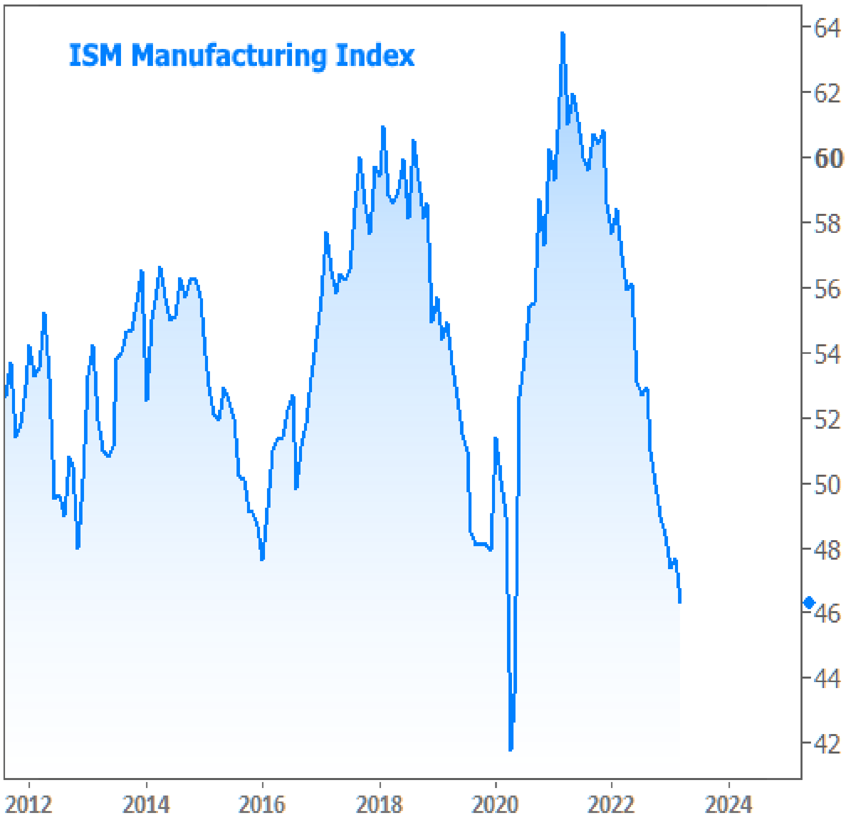
Market Data

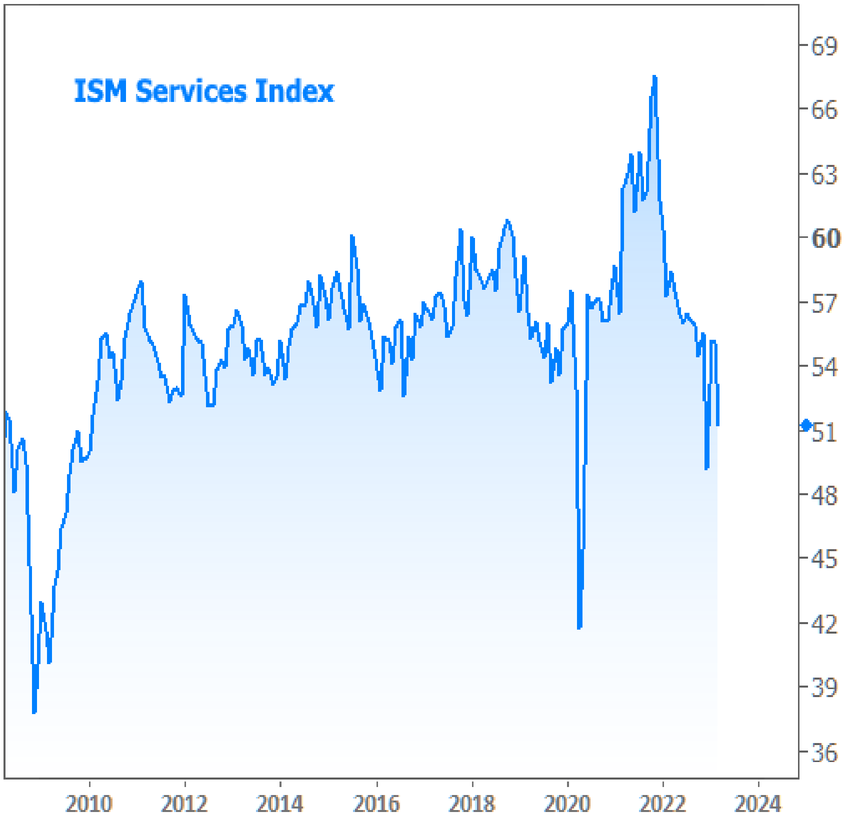
	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3980	+0.1111
30 YR Treasury	4.5640	+0.1383

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

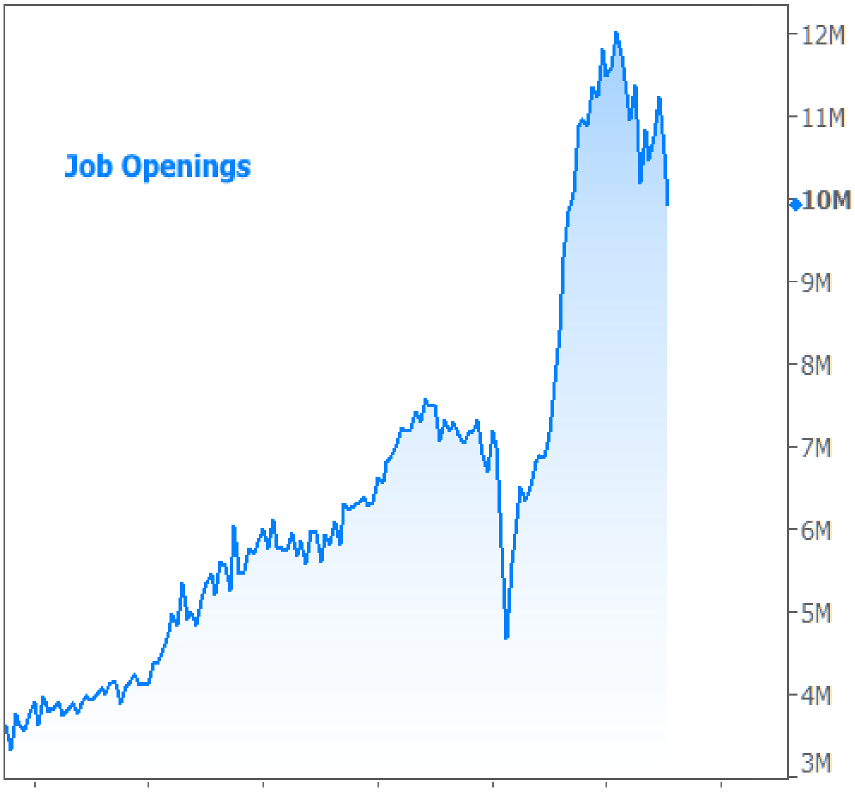
Recent Housing Data

		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%

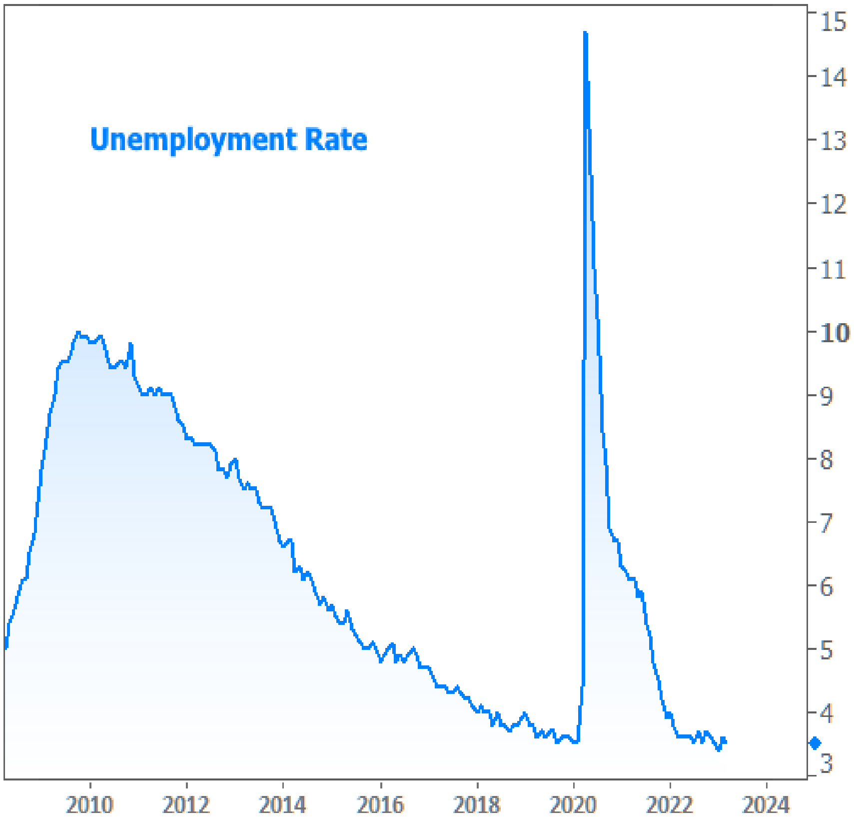

ISM Manufacturing Index
64
62
60
58
56
54
52
50
48
46
44
42
2012
2014
2016
2018
2020
2022
2024


ISM Services Index
69
66
63
60
57
54
51
48
45
42
39
36
2010
2012
2014
2016
2018
2020
2022
2024

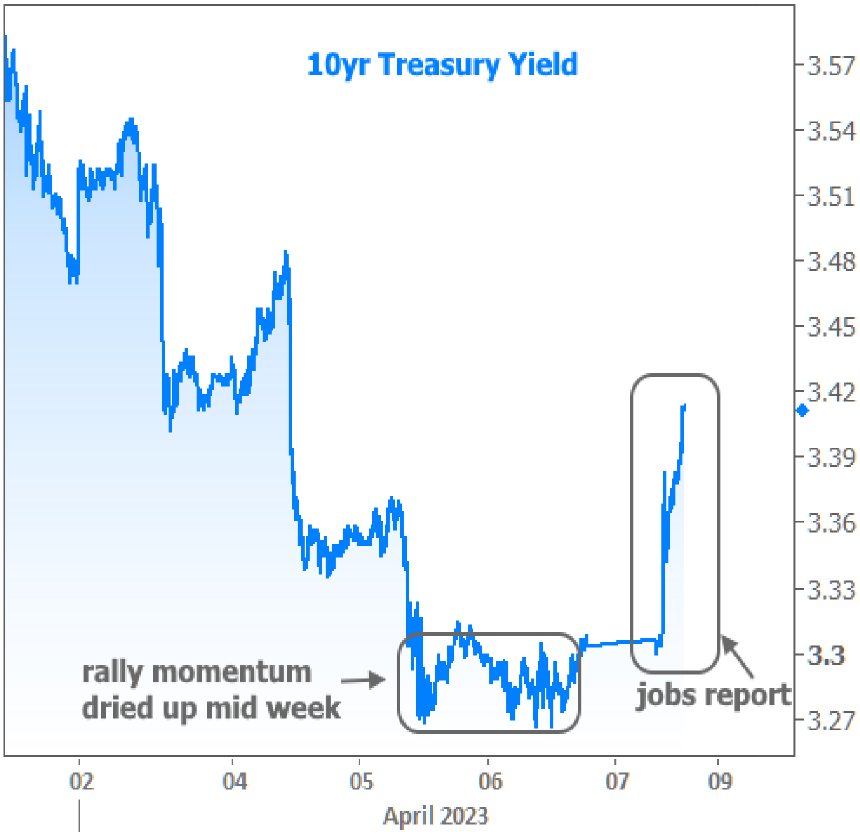
Rounding out the rate-friendly news in the first half of the week, the Job Openings and Labor Turnover Survey (JOLTS) showed much lower job openings in the month of February. The numbers are still very high overall, but markets are looking for a trend as opposed to an outright level. Taken in conjunction with the ISM data, JOLTS added to the sense that persistently resilient economic momentum is cooling off.



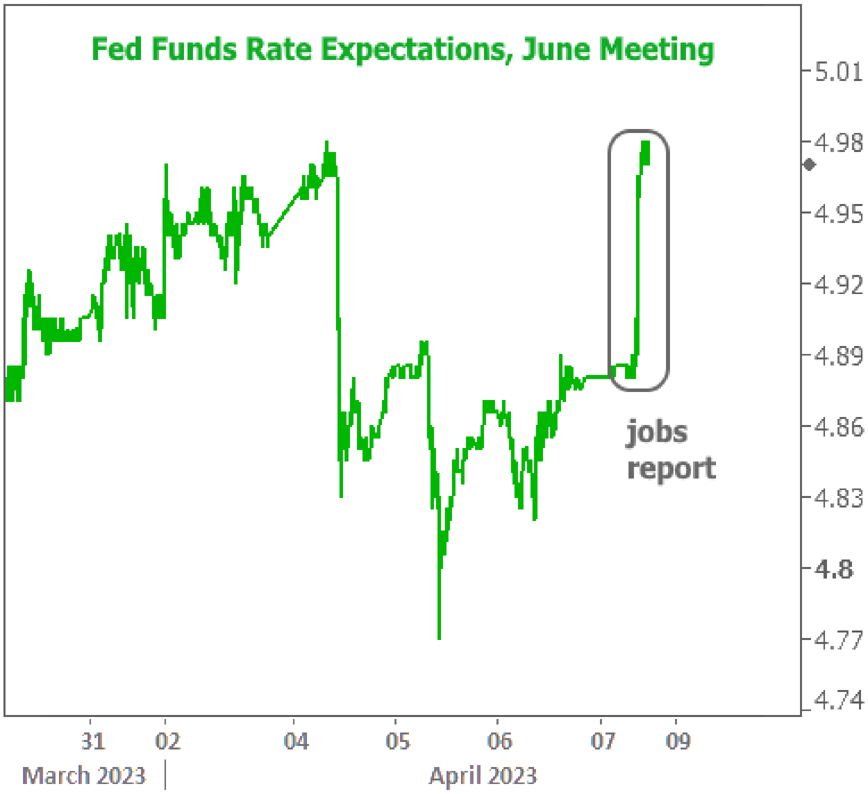
But JOLTS wasn't the market's first choice of labor market indicators for the week. The big jobs report is in a different league. In this case, it actually had something different to say. Job creation was right in line with expectations. Wage growth stayed solid. Unemployment ticked down to 3.5%, and the labor force grew to its largest level since March 2020. It would be hard to make a strong case for labor market weakness when a chart of the unemployment rate looks like this:



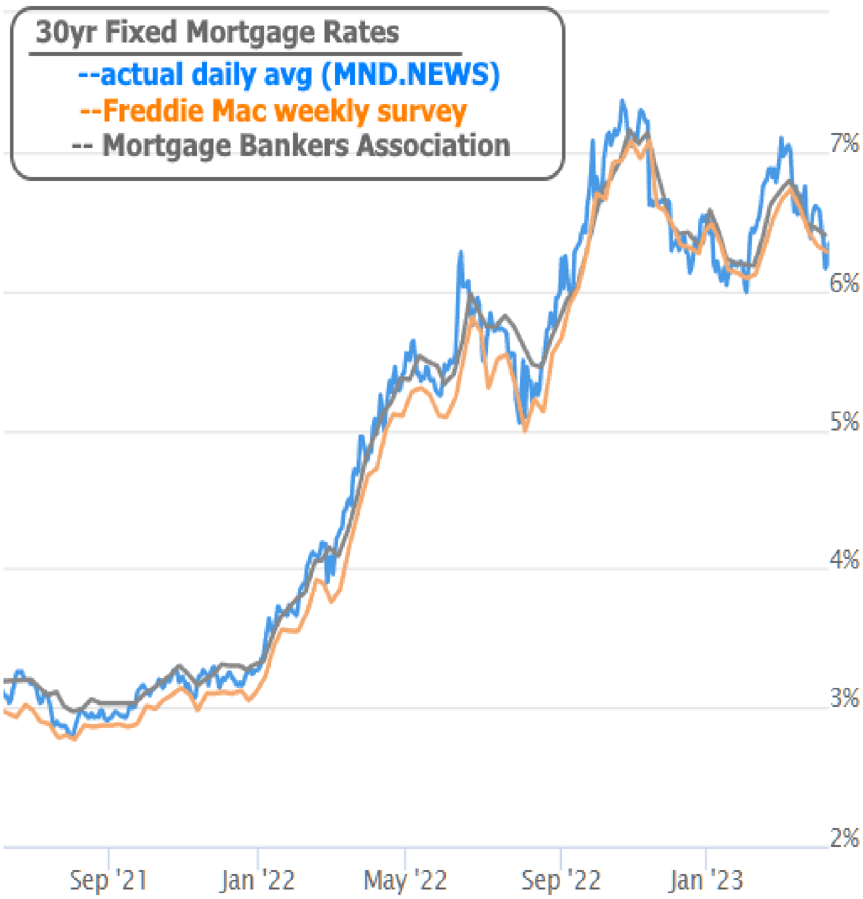
The bond market agreed and quickly re-thought some of the progress it had made in the wake of the week's previous data. To be fair, traders already thought plenty of progress had been made by Wednesday morning based on the way momentum toward lower rates dried up by the middle of Wednesday.



The reversal was even more pronounced for Fed rate hike expectations. At one point, the market had completely priced out the chance that the Fed would hike rates again this year. But after the jobs report, rate expectations returned to the same levels from the start of the week.



Mortgage rates almost always follow the rest of the bond market, even though the proportions can vary. The average lender made it down to the lowest 30yr fixed rates since early February by Thursday, but then bounced higher with the rest of the bond market on Friday. On a bright note, the bounce in mortgage rates wasn't nearly as big as it was for other parts of the bond market.



In the bigger picture, top tier rates have been consolidating in a range between 6 and 7 percent, roughly. This is emblematic of the broader debate for the entire bond market. Whether it's 6-7% in mortgages or 3.3-3.8% in 10yr Treasury yields, markets are waiting for clarity on growth and inflation. If this week's data was only worth a small amount of volatility in that broader range, it's not hard to imagine that we'll need a few months of consistent messaging from other economic data to settle the debate.

Still, some voices are louder than others when it comes to this particular debate and we'll hear from one of the loudest next week. The Consumer Price Index (CPI) will be released on Wednesday morning. If there is one other report with as much street cred as the big jobs report these days, CPI is it. If it shows core inflation coming in hotter than expected for March, rates would be under pressure to head back up into the prevailing range. But if inflation looks like it's shifting into a calmer gear, rates might not need much more convincing before attempting to break below that range.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Apr 03				

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

Date	Event	Actual	Forecast	Prior
10:00AM	Mar ISM Manufacturing PMI	46.3	47.5	47.7
10:00AM	Mar ISM Mfg Prices Paid	49.2	51.0	51.3
10:00AM	Feb Construction spending (%)	-0.1	0.0	-0.1
Tuesday, Apr 04				
10:00AM	Feb Factory orders mm (%)	-0.7	-0.5	-1.6
10:00AM	Job Openings and Labor Turnover Survey (JOLTS)			
Wednesday, Apr 05				
7:00AM	w/e MBA Refi Index	477.2		504.4
8:15AM	Mar ADP jobs (k)	145	200	242
8:30AM	Feb Trade Gap (bl)	-70.5	-69.0	-68.3
10:00AM	Mar ISM N-Mfg PMI	51.2	54.5	55.1
Thursday, Apr 06				
7:30AM	Mar Challenger layoffs (k)	89.703		77.770
8:30AM	w/e Jobless Claims (k)	228	200	198
Friday, Apr 07				
8:30AM	Mar Non-farm payrolls (k)	236	239	311
8:30AM	Mar Average earnings mm (%)	0.3	0.3	0.2
8:30AM	Mar Unemployment rate mm (%)	3.5	3.6	3.6
Tuesday, Apr 11				
1:00PM	3-Yr Note Auction (bl)	40		
Wednesday, Apr 12				
7:00AM	w/e MBA Purchase Index	179.6		166.6
7:00AM	w/e MBA Refi Index	477.5		477.2
8:30AM	Mar m/m CORE CPI (%)	0.4	0.4	0.5
8:30AM	Mar y/y CORE CPI (%)	5.6	5.6	5.5
1:00PM	10-yr Note Auction (bl)	32		
Thursday, Apr 13				
8:30AM	Mar Core Producer Prices MM (%)	-0.1	0.3	0.0
8:30AM	Mar Core Producer Prices YY (%)	3.4	3.4	4.4
8:30AM	w/e Jobless Claims (k)	239	232	228
1:00PM	30-Yr Bond Auction (bl)	18		
Friday, Apr 14				
8:30AM	Mar Retail Sales (%)	-1.0	-0.4	-0.4
8:30AM	Mar Import prices mm (%)	-0.6	-0.1	-0.1
9:15AM	Mar Industrial Production (%)	0.4	0.2	0.0
10:00AM	Apr Consumer Sentiment	63.5	62.0	62.0

★★ Important
★★ Very Important

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