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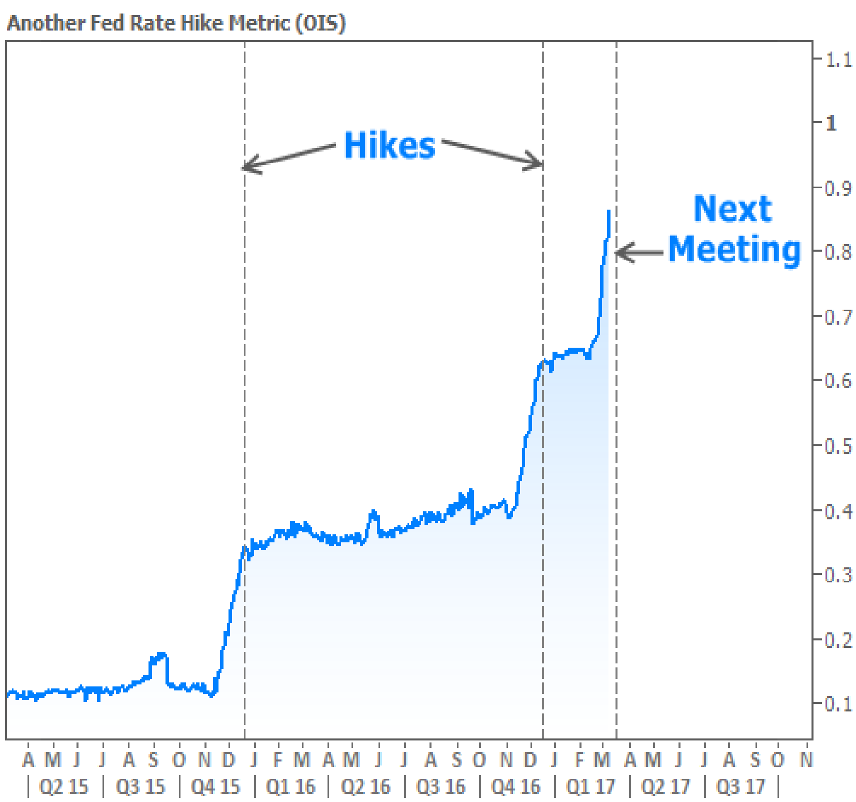
Fed Rate Hike Next Week is Pointless!

Next week's Fed announcement is a hot topic. Market metrics and surveys of economists suggest ever-increasing odds of a rate hike. As such, it may come as a surprise to learn that a rate hike is **pointless** in terms of its impact on financial markets, but there's a catch.

It's pointless because at **no time** in recent memory have financial markets been so certain that the Fed will make a particular move. There's actually no way a Fed rate hike could be any **more** likely than market metrics suggest.

Among those metrics, one of the most reliable is the "overnight-indexed swap" market (or "OIS"). Simply put, it reflects the rate banks are charging each other for short-term borrowing. Given that the Fed Funds Rate is the **final word** in short-term borrowing, OIS closely tracks the expected Fed Funds Rate in the month leading up to a potential rate hike. This is easy to see in the following chart.



The trajectory of the blue line over the past month means billions of dollars are **already actively prepared** for next week's hike... done deal... pointless to wonder anymore. It would take something truly astonishing (in a bad way)

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 6.0	100.09	-0.08
MBS GNMA 6.0	100.23	-0.10
10 YR Treasury	4.4385	+0.0405
30 YR Treasury	4.5957	+0.0317

Pricing as of: 7/1 8:54AM 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%

for that to change.

But while the rate hike itself is pointless, the Fed meeting will still be quite relevant. In fact, another piece of info coming out on Wednesday afternoon will likely be **the most important** data of the week.

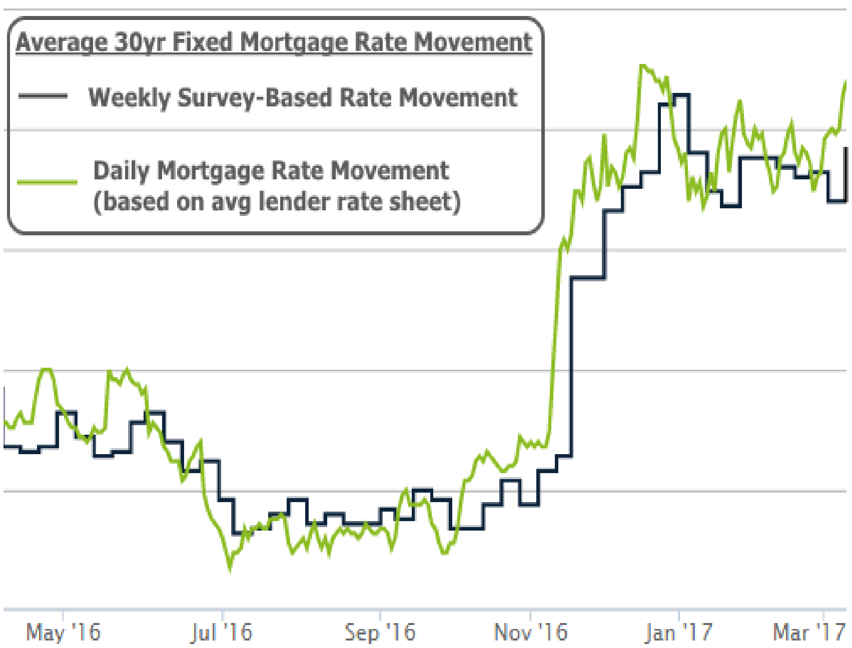
Along with the policy statement (where the Fed officially announces the hike), the Fed releases economic projections 4 times per year. Sometimes referred to as "the dots" (due to the dot plot used to convey some of the data), these projections are **critical** in shaping market expectations about Fed policy **beyond** Fed day itself.

It was the dots that rocked bond markets (and thus, rates) in mid December 2016 (after all, you can see in the chart above that financial markets were already pricing-in the hike). And it's the dots that will **likely dictate** the direction and pace of the next move in rates.

As for probabilities, it only makes sense to be prepared for longer-term rates (like mortgages) to move higher after the Fed announcement. But keep in mind that financial markets are always doing their best to adjust **today's** trading levels to reflect their best understanding of how the **future** will unfold.

That means today's interest rates are **not only** taking the Fed hike into consideration but **also** likely reflect expectations about changes in the Fed's projections. There's some possibility the Fed's rate hike outlook will accelerate less than markets expect. In that case, rates wouldn't necessarily be marching to their doom (this isn't a prediction... just a reminder that there's room for rates to move either way next week).

We've certainly seen plenty of upward movement recently, with average 30yr fixed mortgage rates hitting **2017 highs** this week. The rate spike is actually a bit worse than most news stories suggest because most news stories rely on Freddie Mac's weekly survey. Although the survey is accurate in the long run, it can lag day-to-day movement--especially in the second half of any given week. Here's how this week's actual movement stacks up:



As the chart indicates, rates are close to long-term highs. For the housing market, the timing is poor. Just this week, CoreLogic reported that its home price index expanded at a slower pace for the **first time in 6 months**. Price gains are expected to contract to an annual pace of 4.8 percent by next January vs 6.9 percent recorded through January 2017.

Despite rising rates and the shift in prices, the average American **remains upbeat about the housing market**. Fannie Mae's National Housing Survey showed a surge in home-buying sentiment to its best levels since record-keeping began in 2011.

In economic news this week, the Labor Department reported strong job growth, with **nonfarm payrolls** rising 235k. Analysts were officially expecting a 190k increase, but markets were prepared for something higher based on an earlier report from ADP. This meant rates made their biggest move higher on Wednesday and were then able to take Friday's numbers from the Labor Department in stride.

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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