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Jobs Report Adds Fuel to Fed's Fire

Last week's newsletter was all about the Fed Minutes, which showcased a fairly detailed strategy for reducing the size of the Fed's balance sheet. It was generally more **rate-friendly** than investors expected. This week's jobs report added to the positive momentum--at least for rates!

Stocks, on the other hand, **don't** seem to be wanting for positive momentum. They've been moving steadily higher since November's Presidential election, slowly catching up to the massive spike in interest rates (which had already topped out by the end of 2016 as seen in the chart below).

Back in November, rates spiked faster than stocks because rates (which are driven by the bond market) had to read deeper meaning into the election results. **Not only** did rates have to adjust for economic growth and inflation potential, but **also** for the likely changes in Fed policy--specifically to the reinvestment policy (in which, Fed bond buying helps rates stay lower than they otherwise would be).

While Fed rate hike expectations definitely have an impact on longer term rates like 10yr Treasury yields and mortgages, it wasn't until the Fed began **demystifying** its reinvestment plans that rates were able to make a meaningful move back toward lower levels.

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 6.0	100.11	-0.07
MBS GNMA 6.0	100.24	-0.09
10 YR Treasury	4.4395	+0.0415
30 YR Treasury	4.5981	+0.0341

Pricing as of: 7/1 8:50AM EST

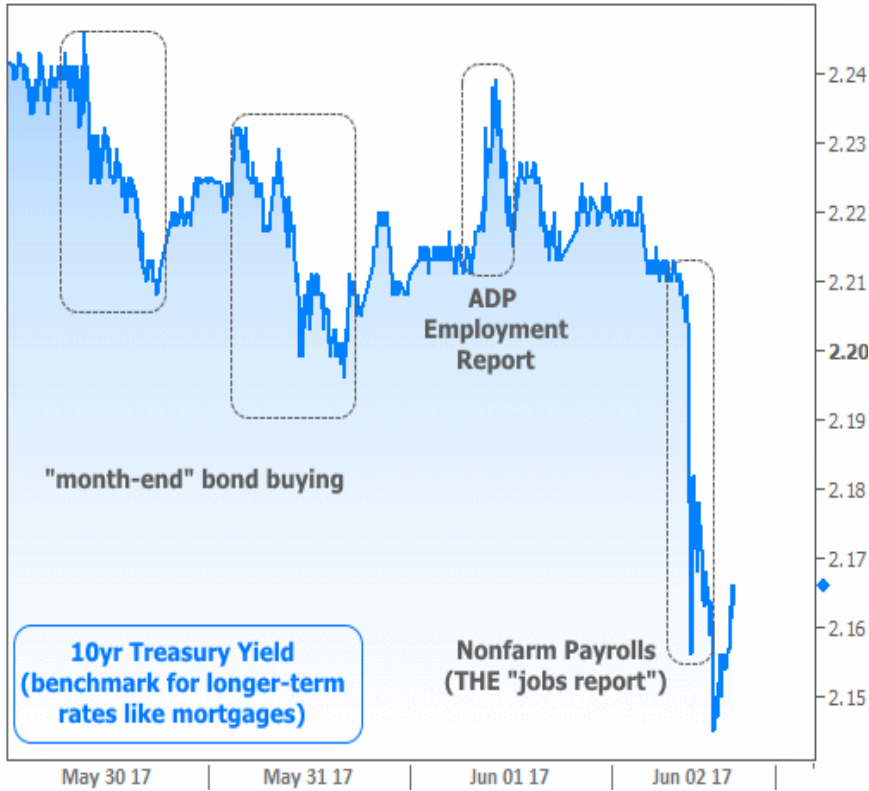
Recent Housing Data

		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%

US Housing Market Weekly

Fed policy often accounts for the **biggest** shifts in rate momentum, while the day-to-day events and headlines act more like fine-tuning adjustments. This week, those smaller adjustments took the form of "month-end bond buying" on Tuesday and Wednesday (compulsory trades from money managers who have to be holding a certain mix of bonds by the end of the month). On Thursday, there was some volatility surrounding the ADP Employment report, but it was **Friday's jobs report** that caused the biggest move.

Bond Market Movement This Week

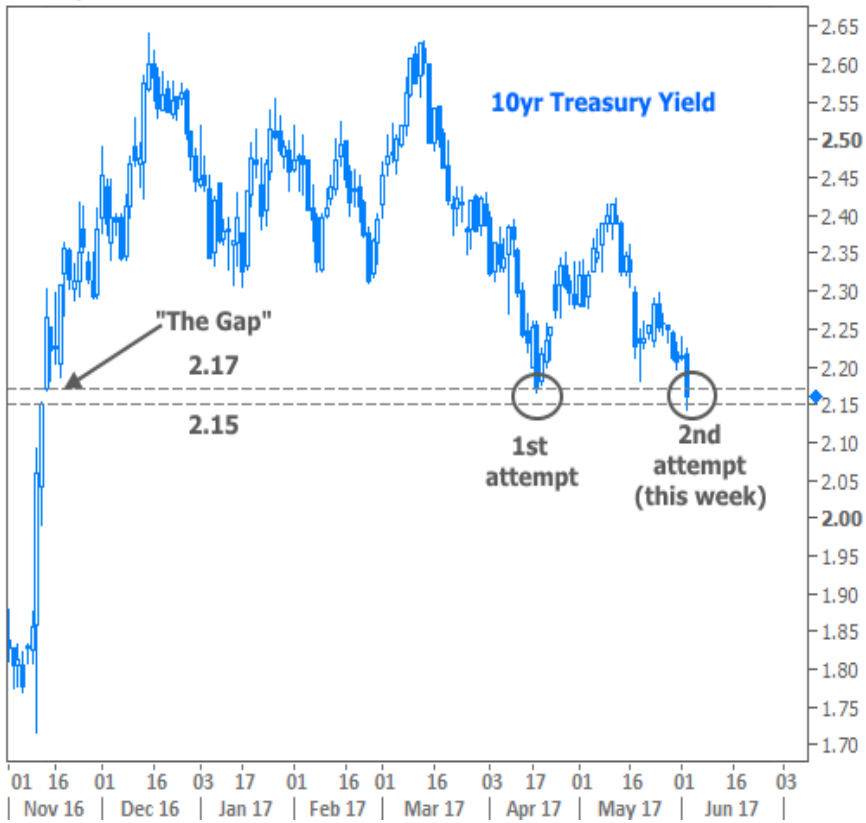


While "big" in the context of this week, Friday was still one of those "fine-tuning adjustments" in the bigger picture. The reason it's **more exciting than normal** is that it brings rates to a very important line in the sand.

Following the election, US 10yr yields (the quintessential benchmark for momentum in longer-term rates like mortgages) formed a prominent "gap" between the closing levels of one day and the opening levels of the next. This is typically only seen in the midst of major shifts in momentum.

Breaking **THROUGH** the gap would be a big deal as it would suggest an end to this period of negative momentum. This week began with rates being fairly close to the gap. From there, weaker jobs numbers provided the final fine-tuning adjustment. In the chart above, it was as simple as getting below 2.17%. In the chart below, we see rates' second attempt since the election to storm the proverbial castle. The first attempt was unsuccessful. Will things be **different this time**? We'll know a lot more about that when we see how bonds trade next week.

The Gap

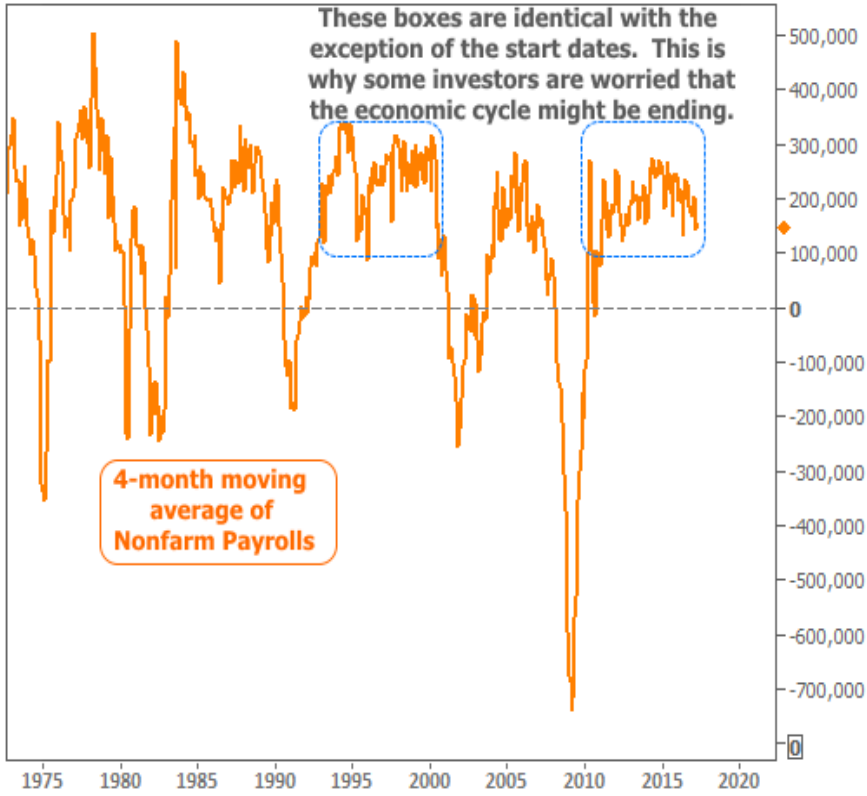


When/if this gap breaks, it could merely be the beginning of additional positive momentum. With fiscal policy plans hitting roadblocks this spring and some softness in the economic data, traders are once again considering the risk of the economic cycle "rolling over." This is a simple reference to economic expansions (adding jobs, positive changes in GDP) vs contractions (losing jobs, negative GDP).

The positive economic cycle in the 90's is often cited as a paragon of stability and staying power in terms of job creation. The chart below highlights that cycle compared to the current expansion. **Long story short**, this week's jobs numbers (nonfarm payrolls) did nothing to reject the notion that the current cycle remains at risk of rolling over--if not now, then soon.

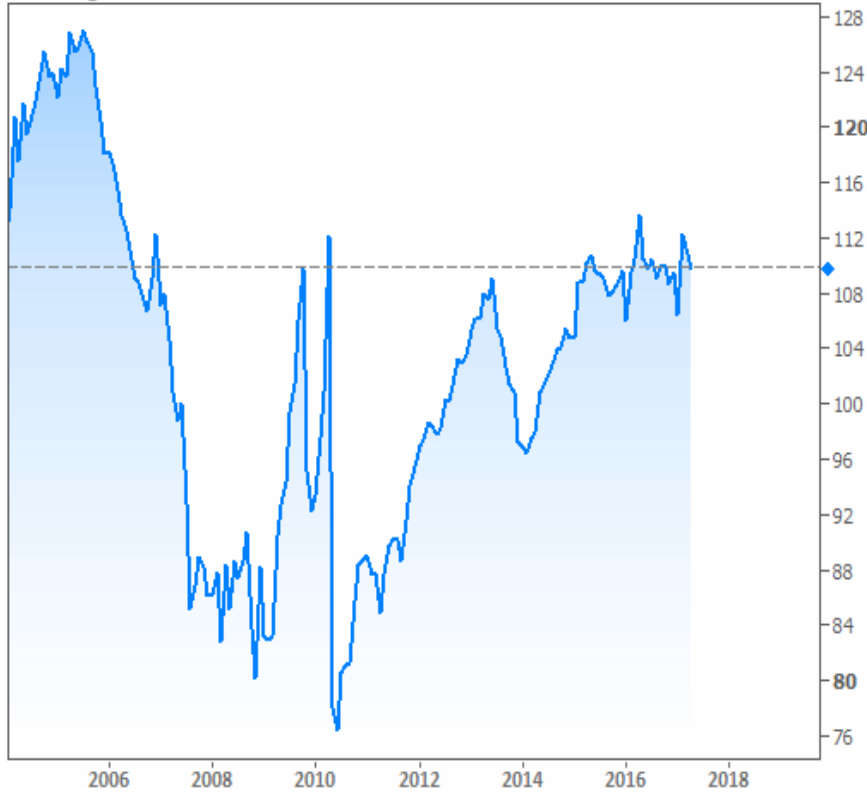
US Housing Market Weekly

Nonfarm Payrolls



This week's **housing-specific data** sang a similar tune, with Pending Home Sales falling in line with 2016's averages. This advance indicator of sales activity increasingly looks to be stalling-out since 2015.

Pending Home Sales



Not all the housing news was bad, however. **Home prices** continued to defy the odds according to separate reports from [Black Knight](#) and [Case-Shiller](#). At the same time, Fannie Mae [implemented an underwriting change](#) that could help a few more prospective homebuyers qualify for loans on these ever-pricier homes by **easing DTI** (debt-to-income) requirements.

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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

