



Mike Baker

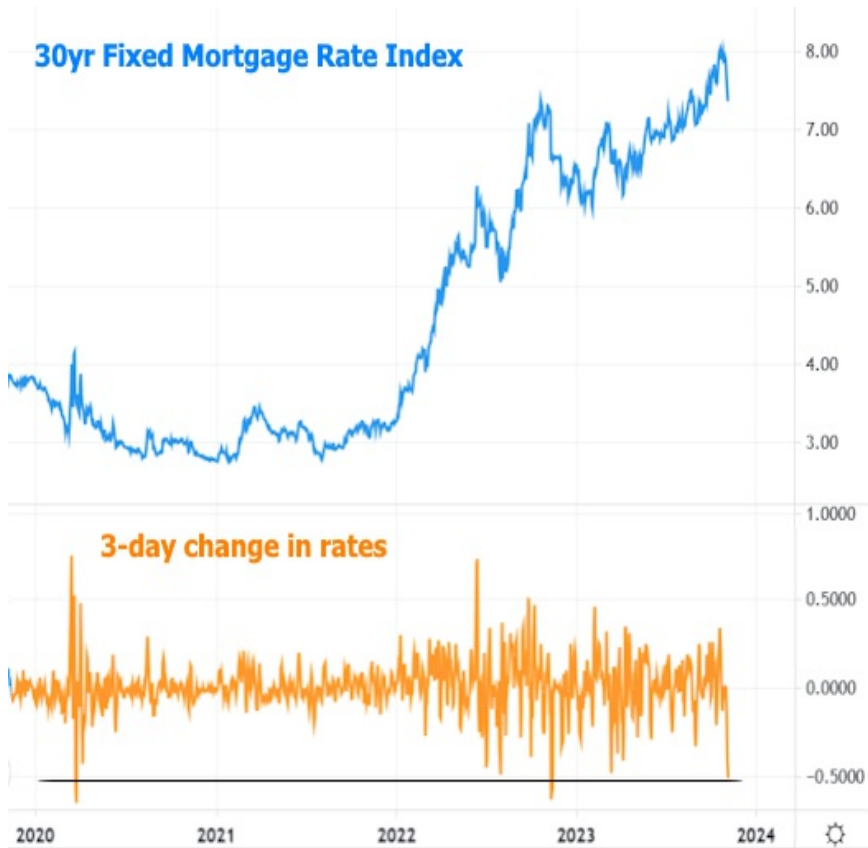
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Tremendous Week For Interest Rates And Possibly Even For The Rate Outlook

The average top tier 30yr fixed mortgage rate was at 23 year highs as recently as October 19th. It wasn't much lower by the start of present week. What a difference a few days make, especially the last 3 which resulted in a massive 0.50% drop!

The improvement seen on Wed-Fri is the 3rd biggest in well over a decade. And if we throw out March 2020 (as we often do, due to unprecedented volatility relating to the onset of the pandemic), we're left with only one other similar example back in early November of 2022.



Like the present example, last November's big drop in rates happened only after setting new super-long-term highs. That's an important consideration because it speaks to market positioning and the psychology of momentum. It's no coincidence that we often see positive records just after hitting big negative milestones.

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	4.3980	+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%

That's not to say the improvement is random or that it is exclusively a reaction to previous rate spikes. The previous rate spikes merely add some "oomph" to the next big drop in rates. Big drops still need justification.

Last November, the justification was a low reading in the Consumer Price Index (CPI) that gave investors hope regarding a shift in inflation. Unfortunately, that shift proved to be a head-fake and rates continued lower into February of 2023, it's been up, up, and away since then.

This time around, economic data was a catalyst yet again, but it didn't act alone. The good times began to roll on Wednesday after Treasury announced lower-than-expected auction amounts. Treasury supply has been an increasingly hot topic for rates because supply has increased so much in the past few years. All else being equal, higher supply means higher rates for Treasuries, mortgages, and almost everything else.

This week's announcement was expected to show MORE supply, but the market expected even higher numbers. In addition, the announcement suggested that Treasury supply would only be going up one more time next quarter. That was received as good news by the bond market which had previously been acting like there was no end in sight.

The rally gained momentum with economic data at 10am and again with the Fed announcement in the afternoon. Thursday was mild by comparison, but kept the trajectory intact with help from slightly higher Jobless Claims data, and especially from traders exiting bets on higher rates.

In the bond market, the simple act of "no longer betting on higher rates" or technically, "short covering," forces a trader to effectively enter a bet on lower rates. In other words, if you'd been betting on higher rates, you'd have to buy bonds to end that bet, and bond buying puts more downward pressure on rates.

With an immense amount of improvement already seen on Wed/Thu, Friday's jobs report was in a unique position to cast a deciding vote on the past 2 days of potential exuberance. If jobs came in higher than forecast, the previous drop in rates would indeed have seemed overly exuberant and we would likely be seeing a decent push back.

As it happened, jobs were **lower** than forecast (good for rates). Additionally, the unemployment rate ticked up more than expected (good for rates) and the past few months of jobs gains were revised lower (good for rates!).

To be sure, the labor market is still exceptionally strong, but the rate market had been pricing in something even stronger. Friday's jobs numbers increasingly paint a picture of a labor market that is cooling back down to more historically normal levels.

The result of all of the above is the best 3 days for mortgage rates and bonds that we've seen since rates first began to launch higher 2 years ago. Granted, the magnitude of the drop is greatly facilitated by the fact rates were at multi-decade highs in the past few weeks, but we're not complaining.

10yr Treasury yields allow us to see the individual contributions outlined above:

US Housing Market Weekly



As welcome as this drop in rates may be, context is important. This victory speaks to things that have already happened. It doesn't necessarily guarantee or even speak to what's to come. Even after this week's big drop, yields are merely back in line with a trend that's been pointing sharply higher since late July.



There's certainly not a rule that prohibits that red line from being broken, but the point is that it will take more time and data for deeper healing in the rate market. Yes, this week's data represents the best chance yet at that kind of healing, but if the data makes a miraculous recovery in the weeks ahead, the healing is on hold.

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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.

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