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# Who's Lying About The Spike in Mortgage Rates?

As recently as Thursday, news outlets were reporting mortgage rates had only risen modestly this week with 30yr fixed rates still well under 3.00%. In fact, they were **already** well over 3.00% by then.

**So who's lying to you?**

Perhaps no one! Thursday's news fell victim to the oldest trick in the mortgage rate reporting book. Well, it's not a **trick** so much as a **pitfall**, but it's surprisingly common given how easy it would be to avoid.

The issue centers on Freddie Mac's weekly mortgage rate survey. As the name suggests, this is an actual survey that's sent out to thousands of originators over the weekend. Responses are accepted through Wednesday, but a majority of responses are in by Monday morning. Results aren't released until Thursday.

This isn't a problem when rates remain relatively flat between Monday and Thursday, but it can cause **significant confusion** on more volatile weeks. After all, this is by far and away the most commonly cited source among news organizations that are used to posting one piece on mortgage rates each week.

As you might have guessed, this was one of those more volatile weeks. In fact, on Thursday, rates jumped at the **fastest** single-day pace since March. Not a great day for a weekly mortgage rate survey to be released... Rates ended up roughly a quarter of a point higher than Freddie's number, and that's a **big** move in the mortgage world.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.30% | +0.12 | 0.00 |
| 15YR Fixed | 6.92% | +0.09 | 0.00 |
| 30YR FHA | 6.89% | +0.07 | 0.00 |
| 30YR Jumbo | 7.40% | +0.03 | 0.00 |
| 7/6 SOFR | 6.80% | +0.31 | 0.00 |
| 30YR VA | 6.90% | +0.07 | 0.00 |

Rates as of: 11/10

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.43 | -0.62 |
| 10 YR Treasury | 4.9860 | +0.0952 |
| 30 YR Treasury | 5.3557 | +0.0737 |

Pricing as of: 11/10 5:59PM EST

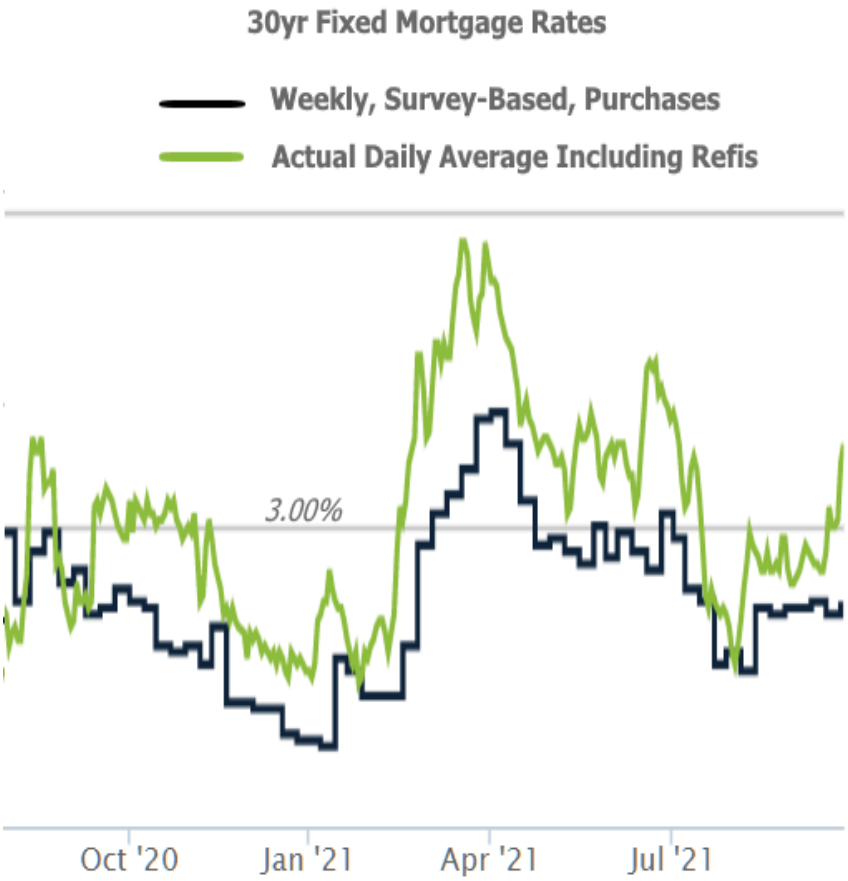
## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 28 | 192.6 | -1.23% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Aug | 71.2 | 0% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Oct | 29 | -9.38% |

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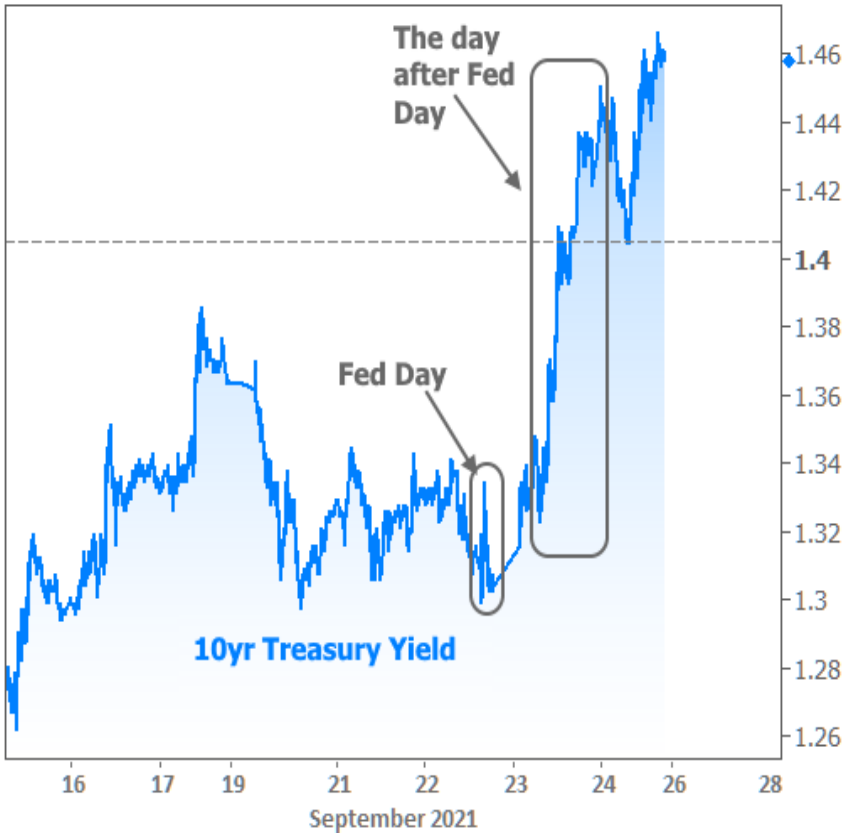

Given the proximity to Wednesday's policy announcement from the Federal Reserve (aka "the Fed"), it's tempting to conclude the Fed said something to **spook** the market. If that were truly the case, we likely would have seen a bigger reaction on Wednesday itself.

**Instead**, bonds went wild on the **following** morning, as seen in the 10yr yield below. Mortgage rates only change once or twice a day, typically. We can use 10yr Treasury yields to observe the moment-to-moment changes in the bond market as the 10yr tends to correlate very well with mortgage rates.

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This begs the question: **what happened on Thursday?**

As unsatisfying as it may be, Thursday's drama transcended a single, massive source of inspiration. The **team effort** didn't even have a clear leader, but players include:

- Gradual global reaction to Wednesday's Fed Announcement
- Foreign central banks releasing policies or comments that were bad for rates
- Foreign bond markets losing lots of ground
- Stocks at home and abroad gaining lots of ground
- Lower "contagion" fears surrounding China's Evergrande
- "Technical" triggers (more on that below)

Technical analysis is a form of market analysis that relies on charts, math, and key levels to inform trading strategy. It exists in contrast to fundamental analysis which focuses on what's actually happening in the economy.

The most basic technical analysis is a line on a chart. Lines can be horizontal to mark key levels where rates have tended to bounce in the past, or they can be drawn along a series of low/high points to track a **trend**. Then when rates break outside one of the lines, traders will either buy or sell depending on their strategy and existing trading positions.

If this is starting to sound familiar, we talked about it quite a bit 2 weeks ago in the newsletter titled "**Rate Reckoning Draws Closer**" and again in **last week's newsletter**. By then, rates were already starting to drift higher, but they hadn't yet broken the consolidation range we'd been tracking (NOTE: the following chart is from LAST week).

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And **here's how things look now:**



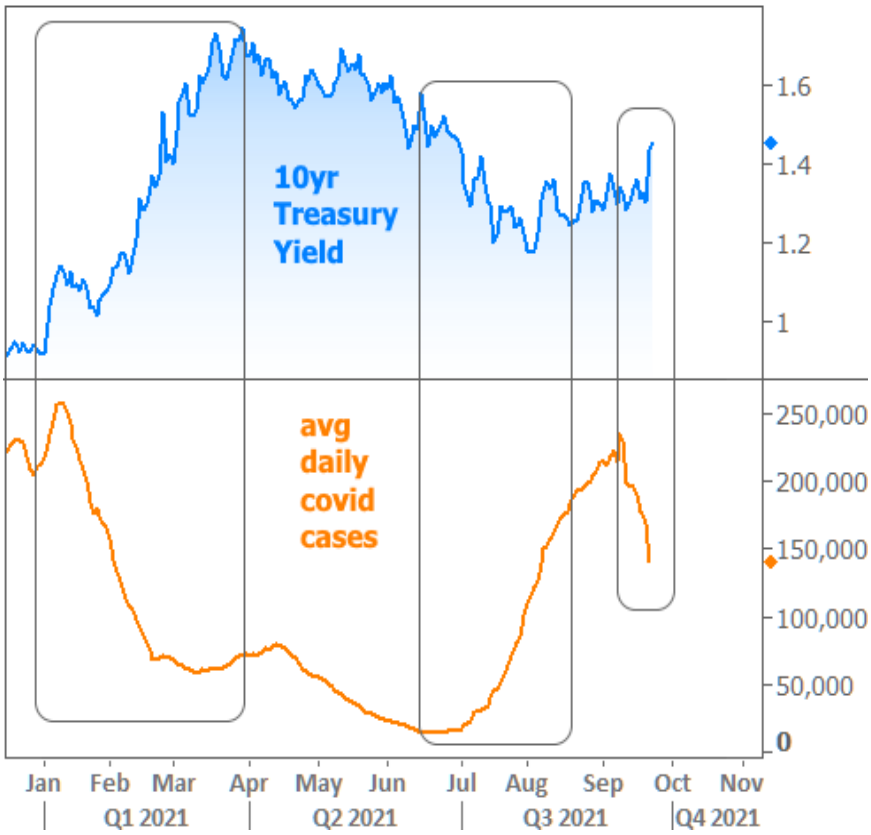

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Technicals aside, if we could only choose one impetus for the bond market, covid has ruled all since March 2020. The short-term importance of covid numbers has varied, but traders have been **waiting for late September** for a variety of reasons (far enough into new school year, far enough away from Labor Day testing distortion, and right in line with an important update from the Federal reserve).

In fact, the Fed had previously called out late September for the same reasons. The implication was that if rising case counts were subsiding by late September, the Fed would be that much more likely to curtail (or "**taper**") its rate-friendly bond buying programs.




If the chart above makes it seem like this week's rate spike was fairly benign in the bigger picture, that's because it is. Sure, it's unpleasant, but we were clearly higher earlier this year. Moreover, at any time before covid, current rates would have been **all-time lows**.

The **risk for rates** is that covid and econ data contribute to an ongoing trend toward higher levels. It's still far too soon to throw around terms like "rising rate environment," (a term that implies months if not years of gradually higher rates) but we definitely just shifted gears into a rising rate trend.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Sep 20** | | | | |
| 10:00AM | Sep NAHB housing market indx | 76 | 74 | 75 |
| **Tuesday, Sep 21** | | | | |
| 8:30AM | Aug House starts mm: change (%) | +3.9 | | -7.0 |
| 8:30AM | Aug Housing starts number mm (ml) | 1.615 | 1.555 | 1.534 |
| 8:30AM | Aug Building permits: number (ml) | 1.728 | 1.600 | 1.630 |
| 8:30AM | Aug Build permits: change mm (%) | 6.0 | | 2.3 |
| **Wednesday, Sep 22** | | | | |
| 7:00AM | w/e MBA Purchase Index | 283.9 | | 277.9 |
| 7:00AM | w/e MBA Refi Index | 3391.1 | | 3185.6 |
| 10:00AM | Aug Existing home sales (ml) | 5.88 | 5.89 | 5.99 |
| 10:00AM | Aug Exist. home sales % chg (%) | -2.0 | | 2.0 |
| 10:30AM | w/e Crude Oil Inventory (ml) | -3.481 | -2.440 | -6.422 |
| 2:00PM | N/A FOMC rate decision (%) | 0 - 0.25 | 0.125 | 0.125 |
| 2:30PM | Fed Press Conference | | | |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Thursday, Sep 23** | | | | |
| 8:30AM | w/e Jobless Claims (k) | 351 | 320 | 332 |
| 9:45AM | Sep Markit Composite PMI | 54.5 | 58.3 | 55.4 |
| **Friday, Sep 24** | | | | |
| 10:00AM | Aug New Home Sales (%) (%) | +1.5 | | 1.0 |
| 10:00AM | Aug New Home Sales (ml) | 0.740 | 0.714 | 0.708 |
| **Monday, Sep 27** | | | | |
| 8:30AM | Aug Durable goods (%) | 1.8 | 0.7 | -0.1 |
| 11:30AM | 2-Yr Note Auction (bl) | 60 | | |
| 1:00PM | 5-Yr Note Auction (bl) | 61 | | |
| **Tuesday, Sep 28** | | | | |
| 9:00AM | Jul CaseShiller 20 yy (%) | +19.9 | 20.0 | 19.1 |
| 9:00AM | Jul Monthly Home Price yy (%) | 19.2 | | 18.8 |
| 10:00AM | Sep Consumer confidence | 109.3 | 114.5 | 113.8 |
| 1:00PM | 7-Yr Note Auction (bl) | 62 | | |
| **Wednesday, Sep 29** | | | | |
| 7:00AM | w/e MBA Purchase Index | 280.4 | | 283.9 |
| 7:00AM | w/e MBA Refi Index | 3359.5 | | 3391.1 |
| 10:00AM | Aug Pending Home Sales (%) | +8.1 | 1.4 | -1.8 |
| 10:00AM | Aug Pending Sales Index | 119.5 | | 110.7 |
| **Thursday, Sep 30** | | | | |
| 8:30AM | Q2 GDP Final (%) | 6.7 | 6.6 | 6.6 |
| 9:45AM | Sep Chicago PMI | 64.7 | 65.0 | 66.8 |
| **Friday, Oct 01** | | | | |
| 8:30AM | Aug Core PCE Inflation (y/y) (%) | 3.6 | 3.6 | 3.6 |
| 10:00AM | Sep ISM Manufacturing PMI | 61.1 | 59.6 | 59.9 |
| 10:00AM | Sep Consumer Sentiment (ip) | 72.8 | 71.0 | 71.0 |
| 10:00AM | Sep Sentiment: 1y Inflation (%) | 4.6 | | 4.7 |
| 10:00AM | Sep Sentiment: 5y Inflation (%) | 3.0 | | 2.9 |
| 10:00AM | Aug Construction spending (%) | 0.0 | 0.3 | 0.3 |


## Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

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