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Fed Hikes. Rates Fall. Have We Hit a Ceiling?

As expected, the Fed **raised** rates this week. Mortgage rates and 10yr Treasury yields (which aren't directly tied to the Fed Funds Rate) actually moved **lower** for the rest of the week. How did that happen and what might it mean for the bigger picture?

Remember, the market is all about "pricing-in" whatever it thinks it knows about the future. If the Fed is 99% likely to hike rates, the market effects of a Fed rate hike are **already 99% in place** ahead of time. That's how things happened this week. As such, other parts of the Fed's announcement were able to have their own effects.

At every other meeting, the Fed releases updated forecasts on key economic metrics. Investors are always most interested in the updated **rate hike forecast**, frequently referred to as "the dots" (because it's presented on a dot plot).

If more of the dots are moving higher, it means the Fed sees rate hikes happening **sooner** or more often. The following chart combines the previous dot plot from March with this week's changes.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00

Rates as of: 8/30

Market Data

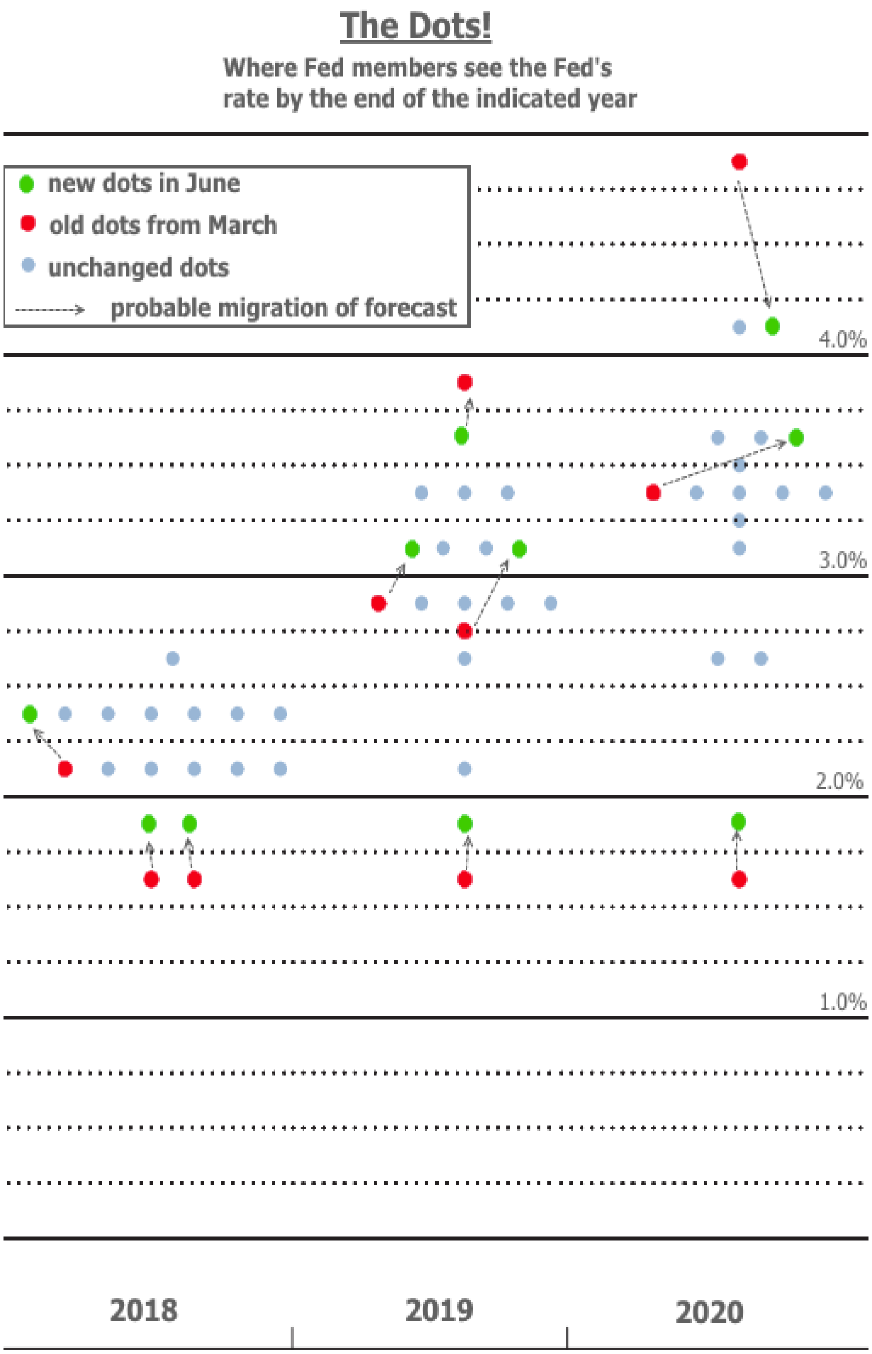
	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/1 7:34PM EST

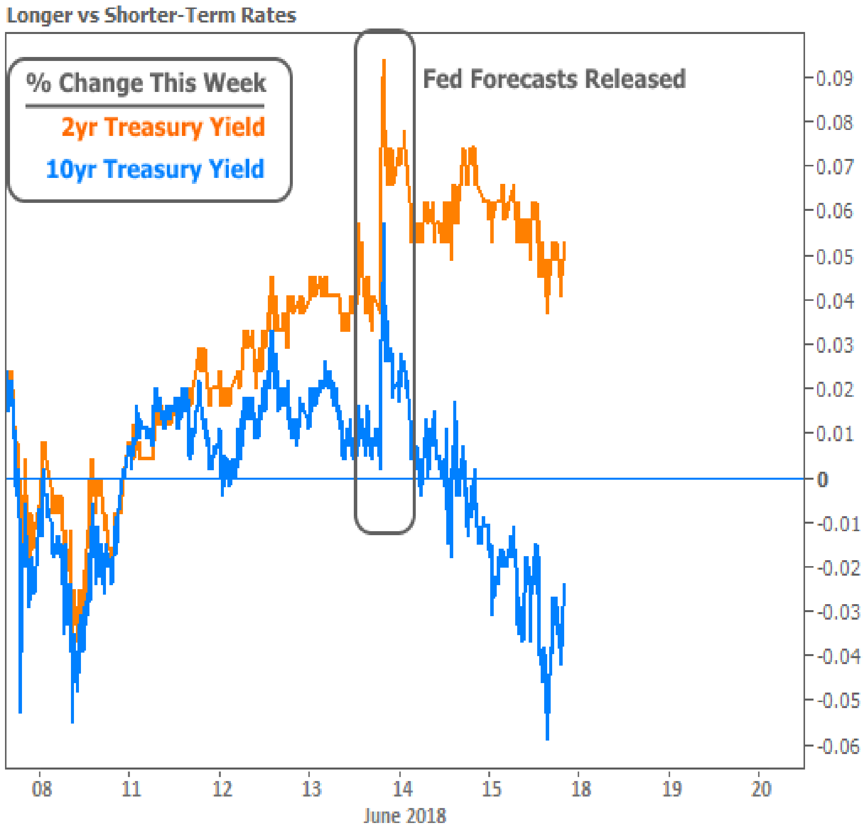
Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
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%

		Value	Change
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



The chart tells us the Fed's rate hike outlook accelerated by just a bit. Markets reacted with an immediate move higher in rate. Keep in mind though, that because the Fed's rate dictates **overnight** rates, it has **less** of an impact on longer-term rates like 10yr Treasury yields and mortgage rates. In fact, as the next chart shows, longer-term rates actually managed to improve by the end of the week while shorter-term rates remained higher.

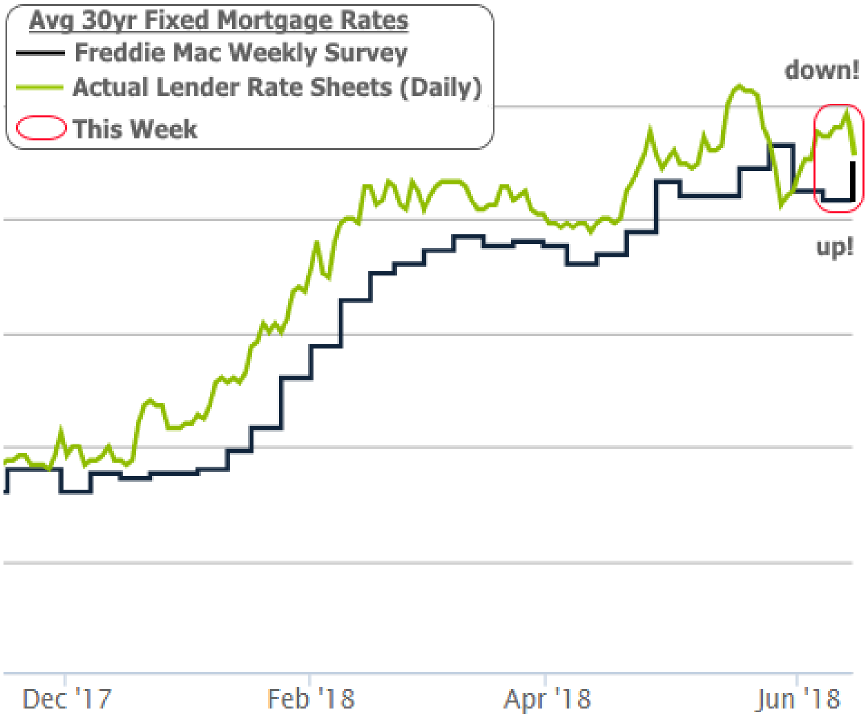


The improvement in longer-term rates began with Fed Chair Powell saying that rates are getting closer to a "neutral" level. A few of his other comments were in the same vein, but all in all, his press conference was well-balanced. The correction in rates seen above has **more to do** with the fact that markets were positioned somewhat defensively heading into the this week's big ticket events.

Rounding out those events, and also helping to lower traders' defenses, was Thursday morning's policy announcement from the **European Central Bank (ECB)**. Just like Fed bond buying is/was a big deal for rates (remember the taper tantrum?) so too is the fate of the European bond buying program. We knew they would be discussing their own tapering decision soon, because the program expires in September.

Rather than offer clues and make us wait several months, the ECB **surprised markets** by announcing their tapering plans in full. They offset the potential ill effects of that surprise by pledging to keep rates low through next summer--a bit longer than markets expected. This helped rates continue to improve through Friday morning.

Despite the obvious improvement in bond markets, many major media outlets published stories saying that rates **rose** this week. This discrepancy is common due to over-reliance on Freddie Mac's weekly rate survey, which only really captures rate movement from early in any given week. Because most of the improvement happened in the 2nd half of the week, much of the news is **at odds with reality**. The average lender made it back to last week's levels.



Making it through this week's big central bank announcements without rates rising means we have a **chance to see a ceiling** begin to take shape in the bigger picture. Even if the current potential ceiling doesn't end up looking like 2014's, optimists are hoping for at least some relief.

When it comes to keeping tabs on the battle for rate ceiling, **2.95% is a good level to watch** in 10yr Treasury yields. To whatever extent rates are moving higher from there, we're generally losing the battle for a bigger picture bounce. To whatever extent we're moving lower, hope remains.

Next week's economic reports **aren't** big market movers, but many of them **are housing-related**. "Holding steady" is the name of the game as far as forecasters are concerned. Builder sentiment is expected to remain unchanged near recent highs on Monday. New Construction (Permits/Starts) is seen staying around an annual pace of 1.3 million on Tuesday. Then on Wednesday, the consensus is for a modest 1.5% improvement in Existing Home Sales after last month's 2.5% decline.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 11				
11:30AM	3-Yr Note Auction (bl)		32	
Tuesday, Jun 12				
8:30AM	May CPI mm, sa (%)	0.2	0.2	0.2
8:30AM	May Core CPI Year/Year (%)	2.2	2.2	2.1
Wednesday, Jun 13				
7:00AM	w/e Mortgage Refinance Index	992.2		1007.3
7:00AM	w/e MBA Purchase Index	249.0		252.8
8:30AM	May Producer Prices (%)	0.5	0.3	0.1
8:30AM	May Core Producer Prices YY (%)	2.4	2.3	2.3
2:00PM	N/A FOMC rate decision (%)	1.750 - 2.000	1.875	1.625
2:30PM	Fed Chair Powell Press Conference			
Thursday, Jun 14				
8:30AM	May Retail Sales (%)	0.8	0.4	0.3
8:30AM	May Import prices mm (%)	0.6	0.5	0.3
8:30AM	May Export prices mm (%)	0.6	0.3	0.6
8:30AM	w/e Jobless Claims (k)	218	223	222
Friday, Jun 15				
8:30AM	Jun NY Fed Manufacturing	25.00	19.00	20.10
9:15AM	May Industrial Production (%)	-0.1	0.2	0.7
9:15AM	May Capacity Utilization (%)	77.9	78.1	78.0
10:00AM	Jun 1yr Inflation Outlook (%)	2.9		2.8
10:00AM	Jun 5yr Inflation Outlook (%)	2.6		2.5
10:00AM	Jun Consumer Sentiment	99.3	98.5	98.0
Monday, Jun 18				
10:00AM	Jun NAHB housing market indx	68	70	70
Tuesday, Jun 19				
8:30AM	May Build permits: change mm (%)	-4.6		-0.9
8:30AM	May House starts mm: change (%)	5.0		-3.7
Wednesday, Jun 20				
7:00AM	w/e MBA Purchase Index	259.6		249.0
7:00AM	w/e Mortgage Refinance Index	1052.3		992.2
10:00AM	May Existing home sales (ml)	5.43	5.52	5.46
10:00AM	May Exist. home sales % chg (%)	-0.4	1.5	-2.5

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Thursday, Jun 21				
8:30AM	Jun Philly Fed Business Index	19.9	29.0	34.4
8:30AM	w/e Jobless Claims (k)	218	220	218
9:00AM	Apr Monthly Home Price mm (%)	0.1		0.1
9:00AM	Apr Monthly Home Price yy (%)	6.4		6.7
10:00AM	May Leading index chg mm (%)	0.2	0.4	0.4
Wednesday, Jul 11				
1:00PM	10-yr Note Auction (bl)	22		
Thursday, Jul 12				
1:00PM	30-Yr Bond Auction (bl)	14		

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thank you for coming to website. Having been a loan officer for 20+year...I know first hand how important it is to stay on top of the news and event that effect mortgage rates, regulation, and program guidelines. Let this web site be a resource for you.
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