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Making Sense of This Week's Crazy Market Movement

Even before it began, this week was destined to be interesting, if not downright important, due to the data and events on the calendar. The scheduled events were joined by unexpected headlines, making for even more market volatility. By Friday, just when the stars seemed to align for rates to break below 2017's constrictive range, they shot paradoxically higher! Why would they do such a thing?

The first thing that made this week interesting was that Monday marked the start of a new month of trading. From a trader's perspective, the first day of a new month often requires an adjustment in trading positions. Certain traders are required to hold certain positions at **the end** of any given month and they can be eager to adjust those positions at the opening bell of the following month. That's exactly what happened on Monday, and in this case, it resulted in rates moving nicely lower.

From there, the next major item on the agenda was Wednesday's release of the minutes from the most recent Fed meeting. Investors were eager to see the Fed's more detailed discussion on "reinvestments." This refers to the Fed's existing policy of reinvesting the money it earns on its bond holdings **back into** the same type of bond.

The reinvestments add up to a **lot** of support for **low rates**, and this was the first meeting where the Fed formally discussed a plan to curtail them. Bond traders were fairly well-prepared for this. In fact, the Fed's actual stance on reinvestments fell short of traders' fears. This accounted for part of the move lower in rates on Wednesday afternoon.

The other part of the move came courtesy of a sharp drop in stock prices. Stocks were spooked by several Fed members expressing some concern about valuations in equities markets. In general, this would lead investors to believe the Fed won't be shy about removing monetary accommodation. Less accommodation makes it harder for stocks to continue soaring. As money fled the stock market, some of it found its way into bond markets (more bond buying demand = lower rates).

With the Fed out of the way, markets turned their attention to Friday's big jobs report. But before Thursday officially ended, news broke regarding the US air strikes in Syria. Unexpected armed conflict involving the US tends to cause a "flight to safety" in financial markets (stocks and interest rates moving lower together), especially if it occurs after domestic market hours.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00

Freddie Mac

30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2262	-0.0263
30 YR Treasury	4.4444	-0.0281

Pricing as of: 7/23 6:50AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
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%

When it comes to such flights to safety, markets tend to move first and ask questions later. Slightly more often than not, this results in the most extreme trading levels being seen in the immediate wake of the news while the following trading day sees a bounce back in the other direction. To say that's exactly what happened on Friday would be an understatement.

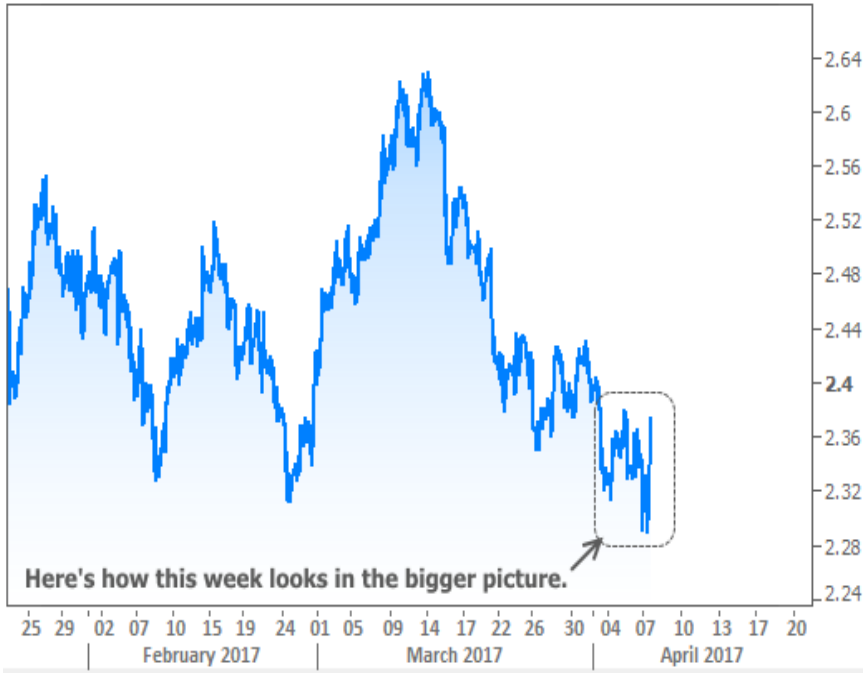


Rates and stock prices were already on their way back up when the jobs report came out MUCH weaker than expected. This was a bit of a curveball considering most bond buyers had already seen plenty of motivation. But the jobs report was so weak that traders were compelled to push rates even lower.

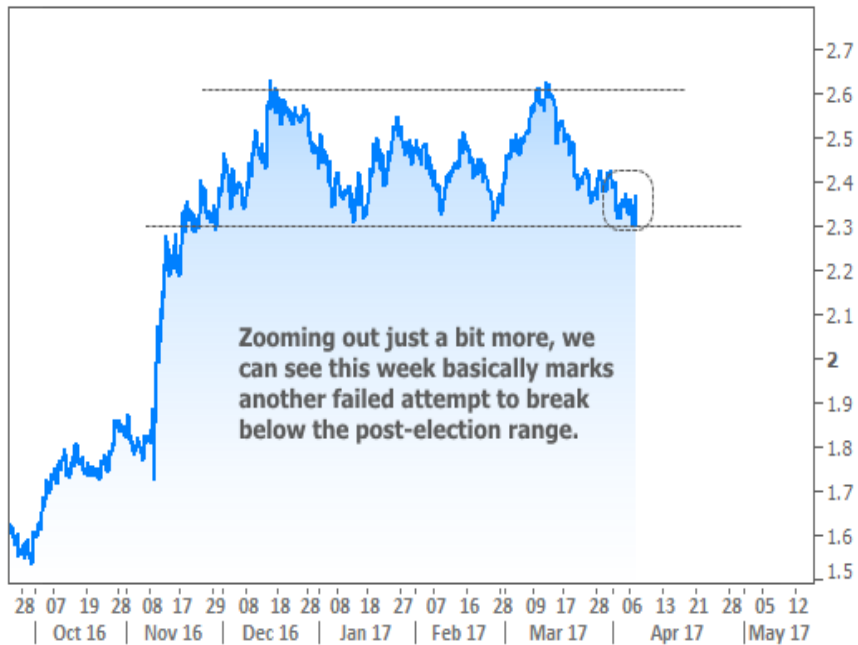
Bottom line, the weak jobs data made sure **anyone willing to buy** any more bonds had done so by 8:40am (10 minutes after the report came out). Buyers were then completely tapped-out. Many of them became sellers or were simply done buying for the day (when sellers outnumber buyers in bond markets, rates move higher).

While all this volatility was interesting, unexpected, and exciting to watch, it wasn't necessarily extreme in the bigger picture. The following chart shows how it stacks up. The moral of the story is that rates **continue struggling** to break below the post-election range, despite keeping us on the edge of our seats over the past few days.

10yr Treasury Yield



10yr Treasury Yield



In terms of housing-specific data, there's some good news to offset the frustration of Friday's rising rates. CoreLogic reported annual home price appreciation moved back to 7 percent after falling to 6.9 percent in the previous report. In general, housing economists have been forecasting a downturn in the rate of appreciation. CoreLogic itself continues to see annual appreciation falling into the 4 percent range by next year, so acceleration in the appreciation rate between now and then is a pleasant surprise.

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Recent Economic Data

Event Importance:

Date	Event	Actual	Forecast	Prior
Monday, Apr 03				
10:00AM	Mar ISM Manufacturing PMI	57.2	57.0	57.7
10:00AM	Feb Construction spending (%)	+0.8	1.1	-1.0
Tuesday, Apr 04				
10:00AM	Feb Factory orders mm (%)	+1.0	1.0	1.2
Wednesday, Apr 05				
8:15AM	Mar ADP National Employment (k)	263.0	187	298
10:00AM	Mar ISM N-Mfg PMI	55.2	57.0	57.6
2:00PM	FOMC Minutes			
Friday, Apr 07				
8:30AM	Mar Average workweek hrs (hr)	34.3	34.4	34.4
8:30AM	Mar Unemployment rate mm (%)	4.5	4.7	4.7
8:30AM	Mar Non-farm payrolls (k)	+98	180	235
3:00PM	Feb Consumer credit (bl)	+15.21	13.90	8.79
Monday, Apr 10				
1:00PM	3-Yr Note Auction (bl)	24		
Tuesday, Apr 11				
1:00PM	10-yr Note Auction (bl)	20		
Wednesday, Apr 12				
7:00AM	w/e Mortgage Market Index	402.9		397.1
8:30AM	Mar Export prices mm (%)	+0.2	0.1	0.3
8:30AM	Mar Import prices mm (%)	-0.2	-0.2	0.2
1:00PM	30-Yr Bond Auction (bl)	12		
Thursday, Apr 13				
8:30AM	Mar Producer Prices (%)	-0.1	0.0	0.3
10:00AM	Apr Consumer Sentiment Prelim	98.0	96.5	96.9
Friday, Apr 14				
12:00AM	Good Friday			
8:30AM	Mar Retail sales mm (%)	-0.2	-0.1	0.1
8:30AM	Mar CPI mm, sa (%)	-0.3	0.0	0.1
8:30AM	Mar Core CPI Year/Year (%)	+2.0	2.3	2.2
10:00AM	Feb Business inventories mm (%)	+0.3	0.3	0.3

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its "Proposed Criteria for Evaluating Home Buyer Contract Forms" on Tuesday. The 15 criteria focus on the contracts' form – whether the documents are readable and understandable – and content – whether they are fair to homebuyers.

- the document's expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
- the right to terminate the contract
- the disclosure that compensation is negotiable
- the broker's compensation clearly stated and that the buyer broker can't receive additional compensation for facilitating a sale
- that any additional fees, such as for showing a home, will be deducted from the broker's commission if there is a successful sale
- that the commission is due only if there is a successful closing
- that buyers have an obligation – for no longer than 60 days, CFA recommends – to pay a broker who earlier showed them a home they purchased after the contract ended
- seller concessions paid directly to buyers
- dual agency not pre-approved by the contract
- an explanation of how a broker treats different buyer clients interested in the same property
- that buyers should not be required to first go through mediation or arbitration if they have a complaint

Contact me for more information. 702-303-0243 or TPayne@loandepot.com

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