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A Truly Uncanny Week For Mortgage Rates

Last week ended with rates running into a **floor** following the Trump's steel and aluminum tariff announcement. Financial markets viewed that as economically negative. Stocks and rates moved lower as a result. But before the week ended, both had bounced due to uncertainty about how the coming week would play out.

That bounce was important because it suggested that momentum in rates was **at risk of shifting sideways** after 3 weeks of modest improvements. That meant that although the big bad rate spike of early 2018 was over, we would have needed to see a better performance to suggest rates would do anything other than head sideways.

In terms of 10yr Treasury yields (the quintessential benchmark for longer term rates), the important floor was 2.80%. That's where we bounced last week, and that's what we **failed to break back below** this week. As last week's newsletter advised, that failure implied a sideways trend which, in turn, meant rates would be exiting the corrective trend from late February (green lines below). Unfortunately for rates, that's exactly what happened this week.

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	4.2423	-0.0102
30 YR Treasury	4.4636	-0.0089

Pricing as of: 7/23 4:43AM EST

Recent Housing Data

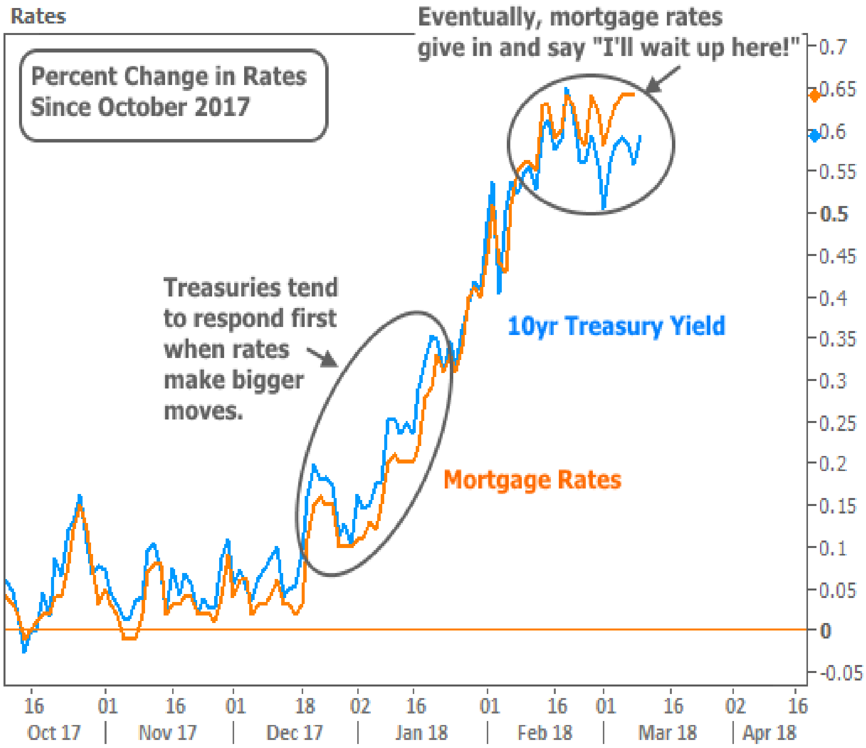
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

Even though we can talk about a "sideways trend" in rates and even though we can kind of see it in terms of Treasury yields, it was **even more pronounced** in terms of mortgage rates. Let's talk about why that is.

Ever since the Fed began buying mortgage-backed-securities (MBS), mortgage rates have been **so closely correlated** with longer-term Treasury yields (the risk-free benchmark interest rates, backed by the full faith and credit of the US government) that there's no need to look at anything but Treasuries when it comes to analyzing broader rate trends.

This week presented a curiosity though. Whereas Treasury yields did experience some volatility (albeit within a narrow range), mortgage rates, on average, were **exactly the same** every day this week. To be clear, this refers to the average of multiple lenders at the end of each business day (not every individual lender held rates steady every hour of every day!).

The following chart shows that end-of-day average mortgage rate in terms of percent change (orange line). Keep in mind that it gets incrementally more expensive for mortgage lenders to offer rate lock commitments during periods of increased volatility even though Treasuries typically have **bigger initial reactions**. As such, the faster rates move higher, the more fed up mortgages get, eventually overtaking the move in Treasuries as if to say "we'll wait up here until you're done!"



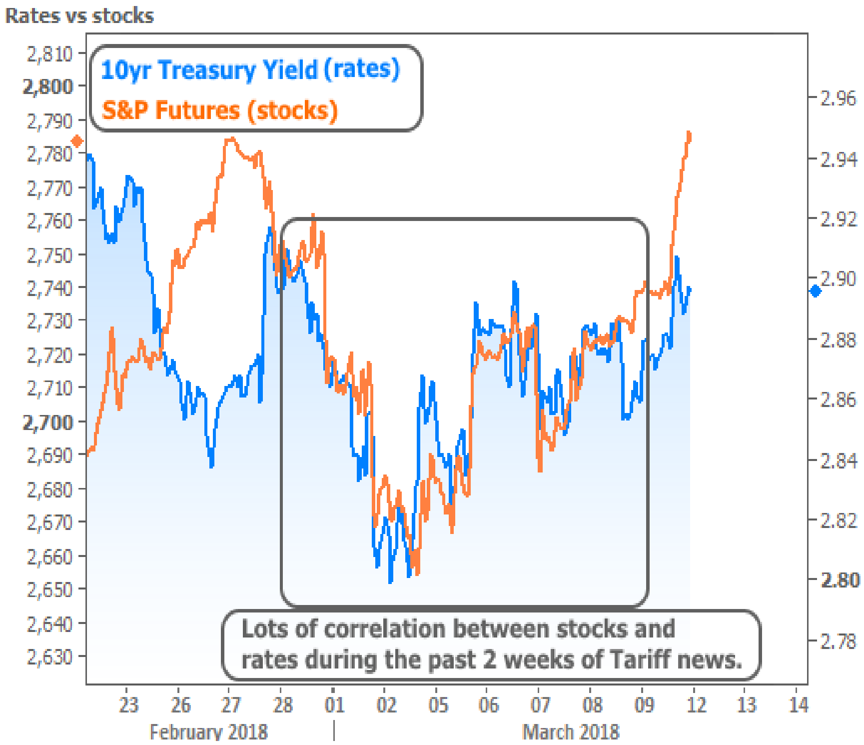
In a nutshell, that's why mortgage rates were able to hold so steady this week. They'd already made it up to that "we'll wait up here" level as of mid-February. They haven't moved much since then, and this week's moderately narrow Treasury trading range meant they **didn't need** to move at all this week (again, in terms of averages).

All of the above **doesn't** mean that mortgage rates will continue to be so steady. If 10yr Treasury yields were to break above 2.92% or below 2.80%, mortgages would almost certainly head in the corresponding direction.

Economic Data Highlights

This week's key economic data was the Employment Situation, also known simply as **"the jobs report"** or NFP due to its headline component: nonfarm payrolls (a tally of new jobs created in the previous month). Over time, no other piece of economic data holds as much sway over markets. Recently though, strong job creation has generally been taken for granted unless it has fallen extremely far from forecast levels.

At 313k versus a median forecast of 200k, this month's report certainly fits the bill. After moving higher and lower throughout the week on adjustments to the tariff news, stocks and bond yields lurched higher at the end of the week following the jobs data, but **stocks moved much faster**, relatively.



As the chart above shows, there's **no magic rule** that says stocks have to follow bonds and vice versa, but the breakaway seen in stocks is still notable. In this case, it has as much to do with the time frame captured in the chart. Both stocks and bond yields moved back in line with late February's highs and stocks happened to have more ground to cover to get there.

All that having been said, if there's a quantifiable reason that bonds were able to resist that move, it may have to do with the average hourly earnings component of the jobs report. **Not only** did wages move unexpectedly lower, they also erased the year-over-year gains seen last month. That leaves the year-over-year wage growth stuck under a ceiling that's been intact since early 2016.

Better wage growth is seen as a key ingredient for inflation, which is one of the two fundamental inputs for interest rate movement. In other words, rates have been moving higher, in part, due to increased inflation expectations. When wages look unwilling to make bigger gains, it helps bonds to avoid moving higher as quickly as stocks. After all, the companies underlying those stock prices can perform that much better if they're not being forced to raise wages as quickly!

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Mar 05				
10:00AM	Feb ISM N-Mfg PMI	59.5	59.0	59.9
Tuesday, Mar 06				
10:00AM	Jan Factory orders mm (%)	-1.4	-1.3	1.7
Wednesday, Mar 07				
7:00AM	w/e Mortgage Market Index	384.1		382.9
8:15AM	Feb ADP National Employment (k)	235.0	195	234
8:30AM	Jan International trade mm $ (bl)			-53.1
Thursday, Mar 08				
8:30AM	w/e Jobless Claims (k)		220	222
Friday, Mar 09				
8:30AM	Feb Non-farm payrolls (k)	+313	200	200
8:30AM	Feb Unemployment rate mm (%)	4.1	4.0	4.1
10:00AM	Jan Wholesale inventories mm (%)	0.8	0.7	0.7
Monday, Mar 12				
11:30AM	3-Yr Note Auction (bl)	28		
Tuesday, Mar 13				
8:30AM	Feb CPI mm, sa (%)			0.5
8:30AM	Feb Core CPI Year/Year (%)	1.8	1.8	1.8
Wednesday, Mar 14				
8:30AM	Feb Producer Prices (%)	0.2	0.1	0.4
8:30AM	Feb Core Producer Prices YY (%)	2.5	2.5	2.2
8:30AM	Feb Retail Sales (%)	-0.1	0.3	-0.3
10:00AM	Jan Business Inventories (%)	0.6	0.6	0.4
Thursday, Mar 15				
8:30AM	Feb Import prices mm (%)	0.4	0.2	1.0

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Feb Export prices mm (%)	0.2	0.3	0.8
8:30AM	Mar Philly Fed Business Index	22.3	23.0	25.8
8:30AM	Mar NY Fed Manufacturing	22.50	15.00	13.10
8:30AM	w/e Jobless Claims (k)	226	230	231
10:00AM	Mar NAHB housing market indx	70	71	72
Friday, Mar 16				
8:30AM	Feb House starts mm: change (%)	-7.0		9.7
8:30AM	Feb Build permits: change mm (%)	-5.7		5.9
9:15AM	Feb Capacity Utilization (%)			77.5
9:15AM	Feb Industrial Production (%)	1.1	0.3	-0.1
10:00AM	Mar 1yr Inflation Outlook (%)	2.9		2.7
10:00AM	Mar 5yr Inflation Outlook (%)	2.5		2.5
10:00AM	Mar Consumer Sentiment	102.0	99.3	99.7
Wednesday, Apr 11				
1:00PM	10-yr Note Auction (bl)	21		
Thursday, Apr 12				
1:00PM	30-Yr Bond Auction (bl)	13		

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

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