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Interest Rate Volatility Comes Roaring Back

Last week marked an **abrupt end** to the gentle, sideways-to-slightly-lower trend in interest rates that had been intact since late February. This week, things got worse.

Whether we're talking about 10yr Treasury yields or the average 30yr fixed mortgage, rates jumped to their highest levels in more than 4 years on Monday. The next two days were even worse.

By Wednesday afternoon, prospective borrowers were seeing rates that were at least **a quarter of percentage point** higher compared to the beginning of last week. This marked the first dose of true rate volatility in more than a month.

Throughout March and into the first half of April, day to day changes in rates were relatively small. Moreover, there weren't very many days spent moving in the same direction. Several days saw **NO** change.

Volatility began creeping up last week with rates moving higher for 3 straight days. But even then, only one of those days saw the average 30yr fixed rate move 0.03% or more. This week, we've seen 0.03% **every single day**, at minimum. The following chart shows those day-over-day changes.

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

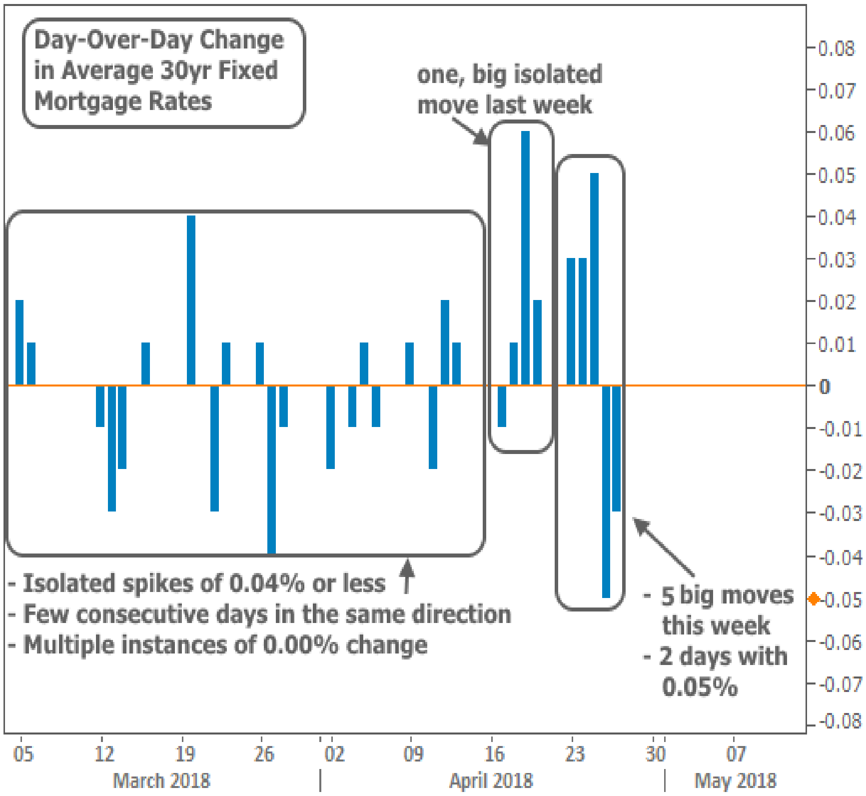
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2515	-0.0010
30 YR Treasury	4.4697	-0.0028

Pricing as of: 7/23 3:02AM 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%



Thankfully, rates ebbed back to Monday's levels by the end of the week, but there's still reason to be defensive. In fact, 2018 is all about being defensive when it comes to rates due to big-picture headwinds. These headwinds have been here for months and they're not going anywhere quickly. They include:

- A **Federal Reserve** (aka "The Fed") that's more willing to hike its policy rate while continuing to reduce the amount of bonds it buys each month. (Foreign central banks are also moving toward policy tightening).

- **Fiscal policies** such as the tax bill that require government borrowing, thus creating excess supply in the bond market. More **supply** = lower bond prices = higher rates.

- Fiscal policies such as the tax bill that may add to **economic growth and inflation**. Growth and inflation generally contribute to higher rates.

The most recent manifestation of this "coming to terms" process was this week's **break above 3.0%** in the 10yr Treasury Yield--the yardstick against which all other long-term rates in the US are measured.

Depending on whom you ask, the break above 3% ranges anywhere from "expected" to "a surefire sign that bonds are entering a **bear** market and that the decades-long **bull** market is over."

Let's get a few things straight:

- It would have been **shocking** had we **NOT** seen 10yr yields above 3% this year. If you stack up the headwinds listed above and compare them to the last time rates were 3%, there's no question that market fundamentals say rates should be higher.

- The decades-long bull market in rates can't go on forever because it would mean rates would have to go deeper and deeper into negative territory.

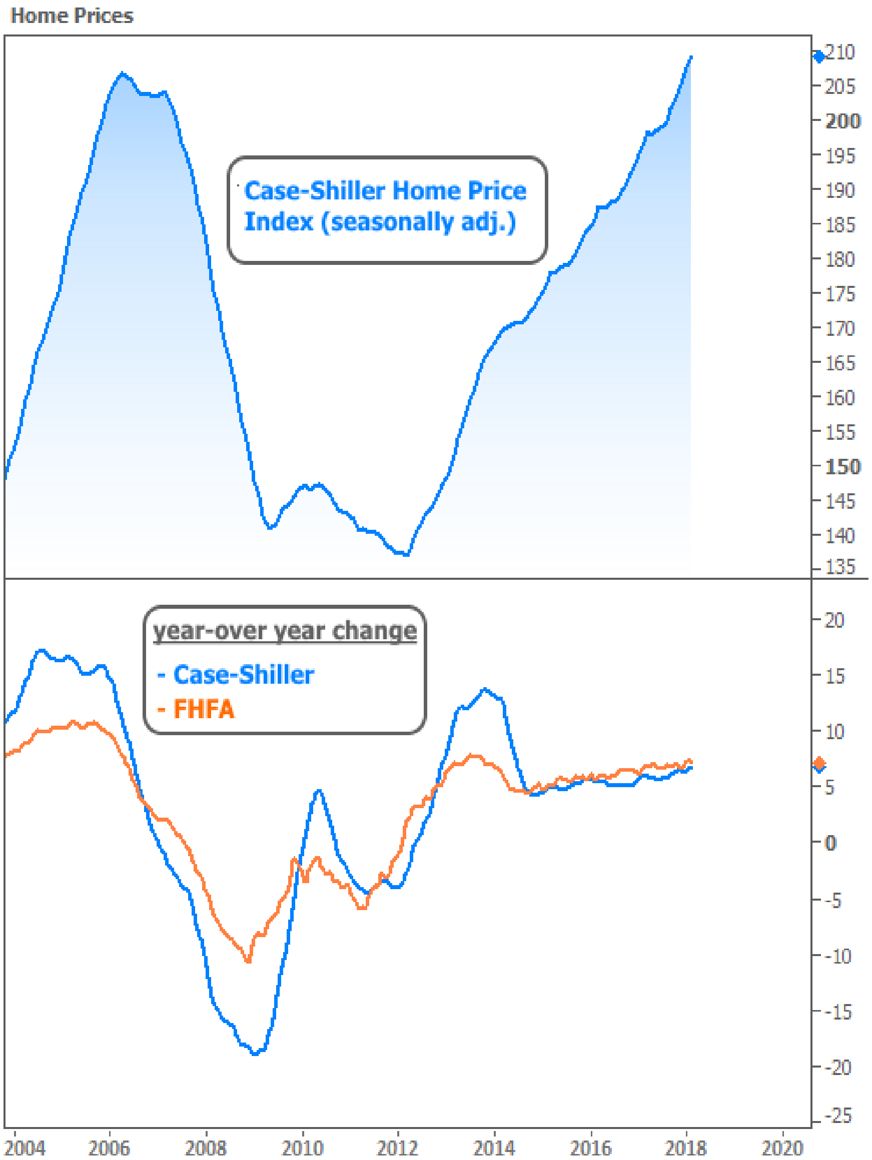
- The end of that bull market isn't as important to pinpoint as the scope of the next range. For instance, will rates then enter a BEAR market and head higher for years and years? Or will they carve out a more sideways trend?

- And finally, all it takes is a few simple lines on a chart to see that we **haven't broken out** of the decades-long positive trend quite yet

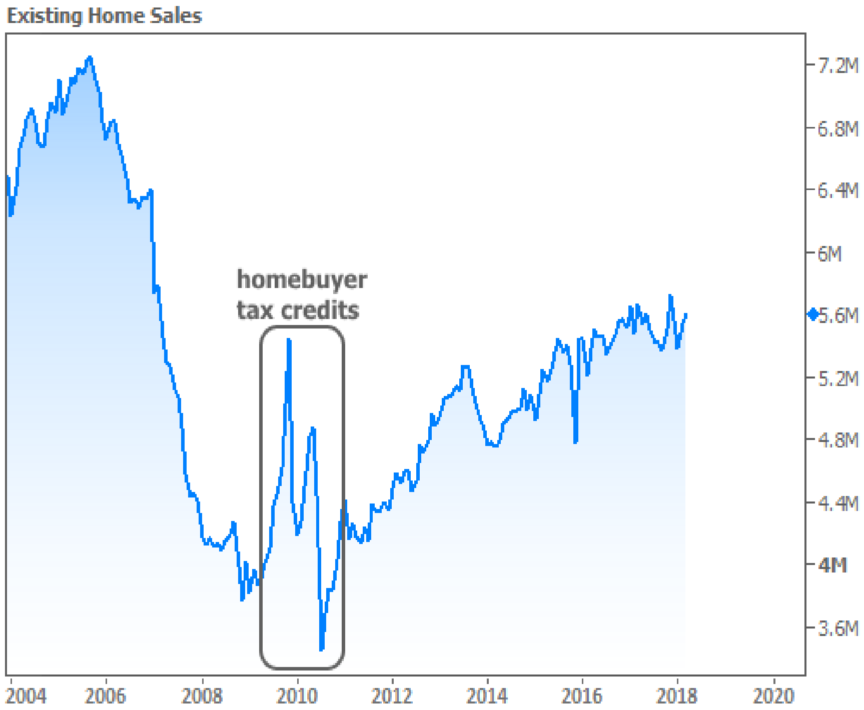
That said, it's good to remember that the next trend could already have taken shape inside the current trend. Some analysts are pointing to the "higher lows" in rates in 2017 and (likely) 2018. They could be right, but history has **sobering reminders** about predicting future market movement. Specifically, there are a ton of "higher lows" in the past that ended up going nowhere.

The previous chart **isn't** offered as proof that rates will soon be moving **lower**. Rather, it's proof that rates don't necessarily **HAVE TO** go **higher**.

In other **housing-related news** this week, the two most widely-followed home price reports were released (covering the month of February). Both Case-Shiller and the FHFA showed stronger-than-expected gains, with year-over-year appreciation near 7%.

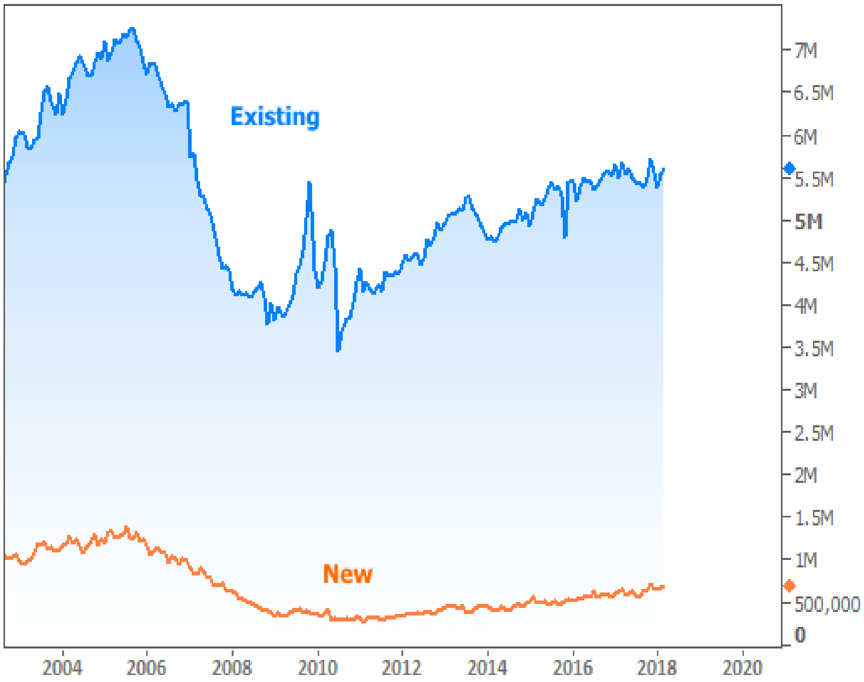


Both **New and Existing Homes Sales** reports were released this week (for the month of March), and both were stronger than expected. Existing Home Sales rose 1.1% versus a 0.2% median forecast, and New Home Sales added 4.0% versus a median forecast calling for a 1.9% gain.



Further to the point made in the last chart, here's what New and Existing sales look like when plotted on the same axis.

Existing vs New Home Sales



Next week brings the big jobs report (Employment Situation/Nonfarm Payrolls), which always has the potential to cause volatility for rates. Before that, we'll get a Fed policy announcement on Wednesday. The Fed can also cause huge moves for rates, but it's somewhat less likely next week. The Fed has 2 types of meetings: those that result in an announcement AND updated forecasts (as well as a press conference with the Fed Chair) and those that simply end with the announcement. Next week's is the latter, and that iteration tends not to pack the same sort of punch.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Apr 23				
10:00AM	Mar Existing home sales (ml)	5.60	5.54	5.54
10:00AM	Mar Exist. home sales % chg (%)	1.1	0.2	3.0
Tuesday, Apr 24				
9:00AM	Feb CaseShiller 20 yy (%)	6.8	6.3	6.4
9:00AM	Feb CaseShiller 20 mm SA (%)	0.8	0.7	0.8
9:00AM	Feb Monthly Home Price yy (%)	7.2		7.3
10:00AM	Mar New home sales-units mm (ml)	0.694	0.630	0.618
10:00AM	Mar New home sales chg mm (%)	+4.0	1.9	-0.6
10:00AM	Apr Consumer confidence	128.7	126.0	127.7
1:00PM	2-Yr Note Auction (bl)	32		
Wednesday, Apr 25				
7:00AM	w/e Mortgage Refinance Index	1145.5		1149.5

Event Importance:

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

Date	Event	Actual	Forecast	Prior
7:00AM	w/e MBA Purchase Index	262.4		262.4
1:00PM	5-Yr Note Auction (bl)	35		
Thursday, Apr 26				
8:30AM	Mar Durable goods (%)	2.6	1.6	3.0
8:30AM	w/e Jobless Claims (k)	209	230	232
1:00PM	7-Yr Note Auction (bl)	29		
Friday, Apr 27				
8:30AM	Q1 GDP Advance (%)	2.3	2.0	2.9
10:00AM	Apr U Mich Sentiment Final (ip)	98.8	98.0	97.8
10:00AM	Apr U Mich 1Yr Inf Final (%)	2.7		2.7
10:00AM	Apr U Mich 5-Yr Inf Final (%)	2.5		2.4
Monday, Apr 30				
8:30AM	Mar Personal Income (%)	0.3	0.4	0.4
8:30AM	Mar Consumer Spending (Consumption) (%)	0.400	0.400	0.200
8:30AM	Mar Core PCE (y/y) (%)	1.900	1.900	1.600
8:30AM	Mar Core PCE (m/m) (%)	0.200	0.200	0.200
9:45AM	Apr Chicago PMI	57.6	58.0	57.4
10:00AM	Mar Pending Home Sales (%)	0.4	1.0	3.1
10:00AM	Mar Pending Sales Index	107.6		107.5
Tuesday, May 01				
10:00AM	Apr ISM Manufacturing PMI	57.3	58.3	59.3
10:00AM	Apr ISM Mfg Prices Paid	79.3	78.0	78.1
10:00AM	Mar Construction spending (%)	-1.7	0.5	0.1
Wednesday, May 02				
7:00AM	w/e Mortgage Refinance Index	1104.9		1145.5
7:00AM	w/e MBA Purchase Index	258.1		262.4
8:15AM	Apr ADP National Employment (k)	204	200	241
9:45AM	Apr ISM-New York index	779.3		772.1
2:00PM	N/A FOMC rate decision (%)	1.500 - 1.750	1.625	1.625
Thursday, May 03				
8:30AM	Q1 Productivity Preliminary (%)	0.7	0.9	0.0
8:30AM	Q1 Labor Costs Preliminary (%)	2.7	2.9	2.5
8:30AM	w/e Jobless Claims (k)	211	220	209
8:30AM	Mar International trade mm $ (bl)	-49.0	-50.0	-57.6
10:00AM	Apr ISM N-Mfg PMI	56.8	58.1	58.8
10:00AM	Mar Factory orders mm (%)	1.6	1.4	1.2
Friday, May 04				
8:30AM	Apr Non-farm payrolls (k)	+164	192	103
8:30AM	Apr Unemployment rate mm (%)	3.9	4.0	4.1

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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