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Lowest Rates in a Year, And They Could Go Even Lower. What Changed?

The last 2 months of 2018 marked a solid run for mortgage rates. December was particularly good, with rates falling at the fastest pace in at least at least 4 years. Balance that against the fact that early November saw the highest rates in more than 7 years!

It's not uncommon to see rates fall more quickly after hitting long-term highs. This drop was fast enough and seemingly dependent enough on stock market weakness that it **made sense to worry** about a snap back to higher levels in 2019.

So far, we **haven't** seen any serious attempts for rates to snap back, even though stocks have recovered much of their late-2018 losses. In fact, for the first time since November 2016, we're able to say rates are lower than they were a year ago!

Concern over a potential bounce has largely been replaced with the understanding that rates could go even lower! What changed?

The two biggest arguments for a shift came courtesy of the world's two biggest central banks. Two weeks ago, the European Central Bank (ECB) expressed more concern over the economic outlook than investors were expecting. Such concern **tends to be good for rates**.

Then last week, the Federal Reserve made a similar move. At the time, I labeled it as "utterly defying expectations" and a "sea-change in the Fed's fairly aggressive approach."

Bottom line: the Fed and the ECB were **surprisingly friendly** toward markets, and both were citing concerns about future economic growth. This was a major departure for the Fed which, as of December, still expected several more rate hikes and no need to change its bond-buying policies.

While some would say this friendly shift was **overdue**, many would argue it was an **over-correction** at first glance. This led to credibility questions. Was the Fed caving in to Trump's criticisms or caring too much about the stock market weakness?

The Fed maintained that its shift was driven in large part by **global growth concerns**, but they promptly had egg on their face. A day and a half after their announcement, all 4 economic reports (including the big jobs report) came out stronger than expected.

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	4.2374	-0.0151
30 YR Treasury	4.4542	-0.0183

Pricing as of: 7/23 12:53AM 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%

Strong economic data coincides with higher rates and the sort of more restrictive monetary policy that the Fed had just mysteriously abandoned. Rates moved higher into the new week and led some to question if the Fed had **gone crazy**.

But the Fed's sanity was vetted this week. Global growth concerns indeed came to center stage after the EU slashed GDP forecasts to 1.3% for 2019 (previously 1.9% just 2 months ago). Germany, the largest EU economy by far, had its forecast cut from 1.8% to 1.1%.

These are **big adjustments!** Maybe the Fed wasn't so crazy after all, but just a bit ahead of its time?

Simply put, if Europe slows down as much as expected, we likely saw the **highest rates of this economic cycle** in late 2018. Beyond that, if a slew of other global economic uncertainties were to walk a similarly downbeat path (slower growth in China, US/China trade deal, permanent government funding deal, Brexit negotiations, etc.), rates would have no qualms about moving **even lower** from here.

All of the above is **still up in the air**, of course, so the default approach isn't really any different from a market-watching standpoint. Like the Fed, we'll be paying attention to the economic data at home and abroad, as well as the more important fiscal developments. But how will the Fed interpret and adapt to the incoming data? Their next big announcement is in mid-March. Unless the global economic outlook gets gloomy enough before then, that's when we'd expect to see an even bigger shift in the interest rate outlook.

A quick note... There is a decidedly rate-friendly tone in this week's newsletter. This is due to an objective shift in the data and in market trading levels. As always, **traders are aware of everything you just read** and can move money accordingly. There is always a risk that rates can move higher or lower. The goal here was to address last week's questioning of the Fed's sanity. Optimism or pessimism should depend on how the economic data and fiscal developments unfold.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Feb 05				
10:00AM	Jan ISM N-Mfg Bus Act	59.7	59.5	59.9
10:00AM	Jan ISM N-Mfg PMI	56.7	57.2	57.6
1:00PM	3-Yr Note Auction (bl)	38		
Wednesday, Feb 06				
7:00AM	w/e MBA Purchase Index	253.1		266.2
7:00AM	w/e Mortgage Refinance Index	1053.4		1049.9
8:30AM	Nov International trade mm $ (bl)	-49.3	-54.0	-55.5
Thursday, Feb 07				
8:30AM	w/e Jobless Claims (k)	234	228	253
Wednesday, Feb 13				
7:00AM	w/e MBA Purchase Index	237.7		253.1
7:00AM	w/e Mortgage Refinance Index	1052.4		1053.4
Thursday, Feb 14				
8:30AM	Dec Retail Sales (%)	-1.2	0.2	0.2

Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

Date	Event	Actual	Forecast	Prior
8:30AM	w/e Jobless Claims (k)	239	225	234
Friday, Feb 15				
9:15AM	Jan Industrial Production (%)	-0.6	0.1	0.3
9:15AM	Jan Capacity Utilization (%)	78.2	78.7	78.7
10:00AM	Feb Consumer Sentiment	95.5	93.0	91.2
10:00AM	Feb 5yr Inflation Outlook (%)	2.3		2.6
10:00AM	Feb 1yr Inflation Outlook (%)	2.5		2.7
Wednesday, Apr 10				
1:00PM	10-yr Note Auction (bl)	24		
Thursday, Apr 11				
1:00PM	30-Yr Bond Auction (bl)	16		

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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