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Interest Rates Increasingly Focused on Stimulus

The bond market, which drives interest rates, is in the habit of reacting to big developments that impact the economy and inflation. At present, bonds are **forced to wait** for several such developments, but only one of them might come into focus this month.

The developments in question are all very different, but all are important in their own way. They are:

1. The path of the pandemic and resulting impact on the economy
2. The presidential election and resulting fiscal policy changes
3. The much-debated 2nd installment of fiscal stimulus (covid-19 relief)

Naturally, the pandemic's economic impact will take **years** to be fully understood. On that front, there will be no single event that decides the fate of the market and interest rates.

The election, on the other hand, has a definitive result and deadline attached to it, but it's still a month away.

In the meantime, fiscal stimulus is an important consideration for the economy, the election, and **especially** for interest rates. A decision could come at any time. It could be delayed until after the election. It could be bigger or smaller than expected. But odds are something will happen **before** the election and **despite** all the political posturing, that it will fall somewhere between the two ideological boundaries guarded by either side of the aisle.

This is a **big deal**. To understand why, consider the following chart of ISM's Non-Manufacturing Index--one of the broadest barometers of economic activity in the US and far more timely than GDP.

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

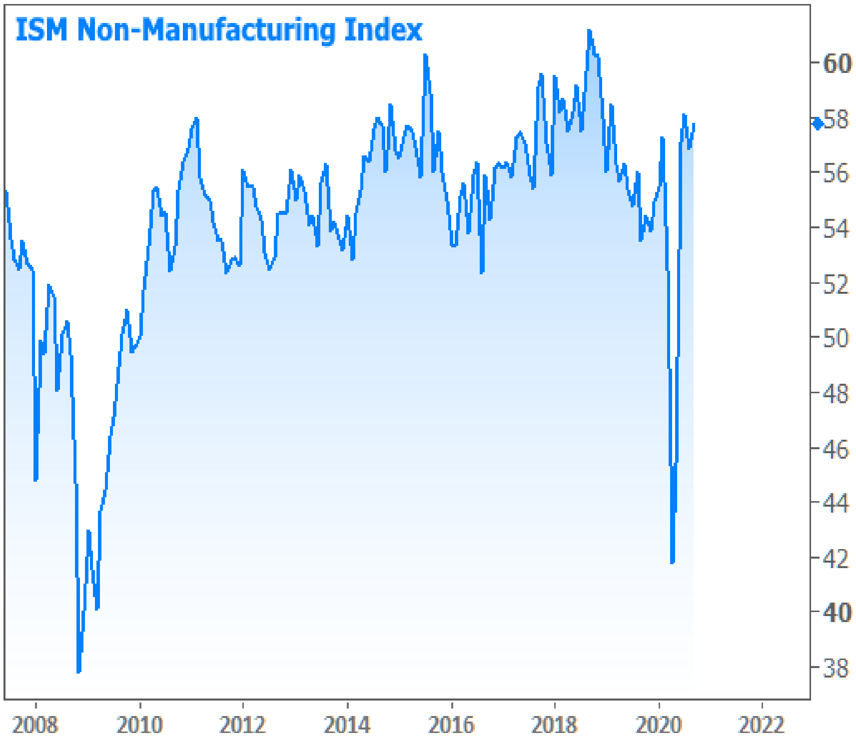
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2418	-0.0107
30 YR Treasury	4.4622	-0.0103

Pricing as of: 7/22 9:01PM EST

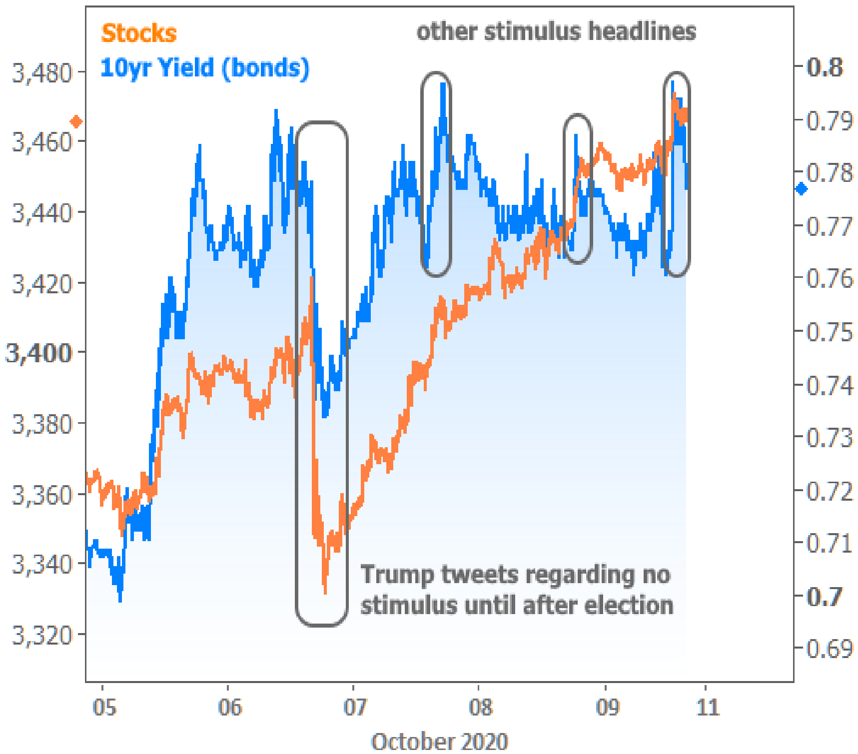
Recent Housing Data

		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%

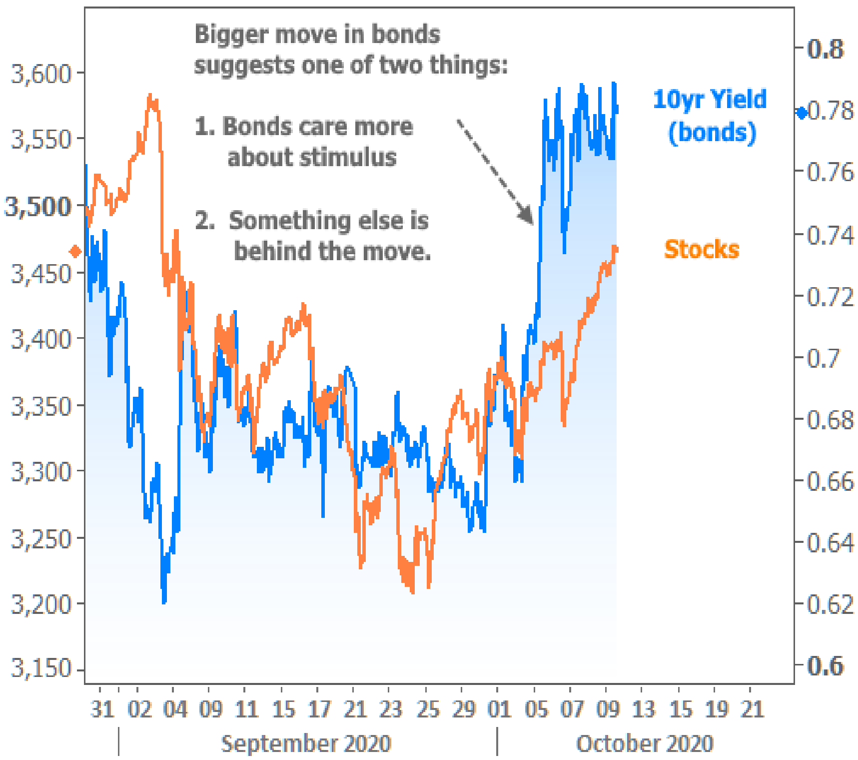


While these numbers certainly would have bounced back from their recent lows either way, there's widespread bipartisan agreement that the relatively fast passage of a large, initial stimulus bill made the bounce **much bigger and faster** than it otherwise would have been. There's similar agreement that additional stimulus is nothing short of mandatory in order to avoid more dire economic outcomes.

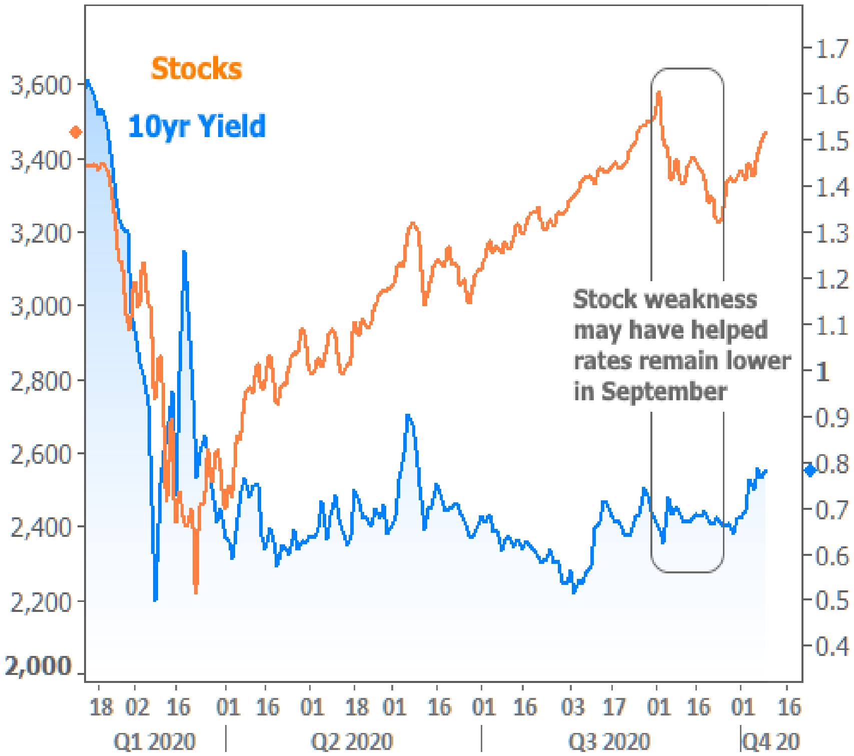
These outcomes matter greatly to both stocks and bonds (aka rates). That was apparent this week as both stocks and rates made their **biggest** moves lower after Trump tweeted that stimulus was on hold until after the election. Subsequent stimulus headlines continued driving smaller pockets of volatility throughout the week.



If it looks like the two lines above aren't responding in quite the same way, that's because **they're not!** Bonds experienced most of their volatility right at the beginning of the week despite continuing to react to stimulus headlines more readily than stocks throughout the week.



There are quite a few ways to argue both for and against the correlation between rates and stocks. The longer the time frame considered, the more the correlation **breaks down**. Nonetheless, we can see that the stock market correction in September coincided with a flattening-out of interest rates just as they seemed to be bouncing higher.



As stocks found their footing, rates may have simply decided to resume their previous move higher. We can also consider simple chart patterns that suggested bonds had to make a choice at the end of an uncommonly calm and narrow September. In fact, after such a consistent theme in one month, it's not uncommon to see an obvious change of pace and direction in the new month.

The bond market and banks will be closed on Monday in observance of Columbus Day. Bank holidays can affect the mortgage process. Monday won't count as part of the 3-day wait between closing and funding for refinances, and wire transfers will be on hold until Tuesday. In addition, few lenders publish new rate sheets or accept locks on bank holidays.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Oct 05				
10:00AM	Sep ISM N-Mfg PMI	57.8	56.3	56.9
Tuesday, Oct 06				
8:30AM	Aug International trade mm $ (bl)	-67.1	-66.1	-63.6
1:00PM	3-Yr Note Auction (bl)	52		
Wednesday, Oct 07				
7:00AM	w/e MBA Purchase Index	316.0		320.9
7:00AM	w/e Mortgage Refinance Index	3622.3		3346.9
1:00PM	10-yr Note Auction (bl)	35		
2:00PM	Fed Meeting Minutes			
3:00PM	Aug Consumer credit (bl)	-7.22	14.00	12.25
Thursday, Oct 08				
8:30AM	w/e Jobless Claims (k)	840	820	837
1:00PM	30-Yr Bond Auction (bl)	23		

Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

Date	Event	Actual	Forecast	Prior
Friday, Oct 09				
10:00AM	Aug Wholesale inventories mm (%)	0.4	0.5	0.5
Monday, Oct 12				
12:00AM	Columbus Day			
Tuesday, Oct 13				
8:30AM	Sep Core CPI (Annual) (%)	1.7	1.8	1.7
Wednesday, Oct 14				
7:00AM	w/e MBA Purchase Index	311.1		316.0
7:00AM	w/e Mortgage Refinance Index	3612.3		3622.3
8:30AM	Sep Core Producer Prices YY (%)	1.2	0.9	0.6
Thursday, Oct 15				
8:30AM	Sep Import prices mm (%)	0.3	0.3	0.9
8:30AM	Oct Philly Fed Business Index	32.3	14.0	15.0
8:30AM	Oct NY Fed Manufacturing	+10.5	15.00	17.00
Friday, Oct 16				
8:30AM	Sep Retail Sales (%)	1.9	0.7	0.6
9:15AM	Sep Industrial Production (%)	-0.6	0.5	0.4
10:00AM	Oct Consumer Sentiment	81.2	80.5	80.4
10:00AM	Aug Business Inventories (%)	0.3	0.4	0.1

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

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

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