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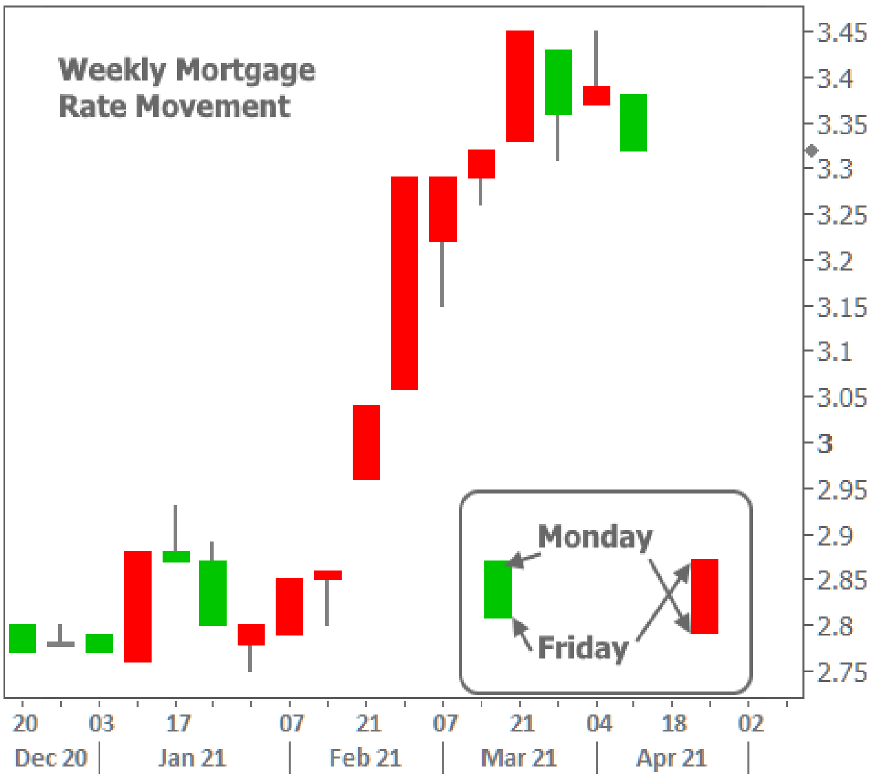
Victory For Rates; Hope For Housing Inventory?

2021 hasn't been a great year for mortgage rates--at least not as far as their trajectory is concerned. But that **could be changing**. Even if things don't get any better from here, the past 3 weeks are collectively the best we've seen since January.



Mortgage rates are primarily driven by day-to-day movement in the bond market. There is a particularly strong correlation between 10yr Treasury yields and mortgage rates. While this definitely **wasn't** the case for much of 2020, the correlation is now generally back intact. As such, the ability of 10yr Treasury yields to remain under a ceiling of 1.75% has coincided with resilience in the mortgage market.

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

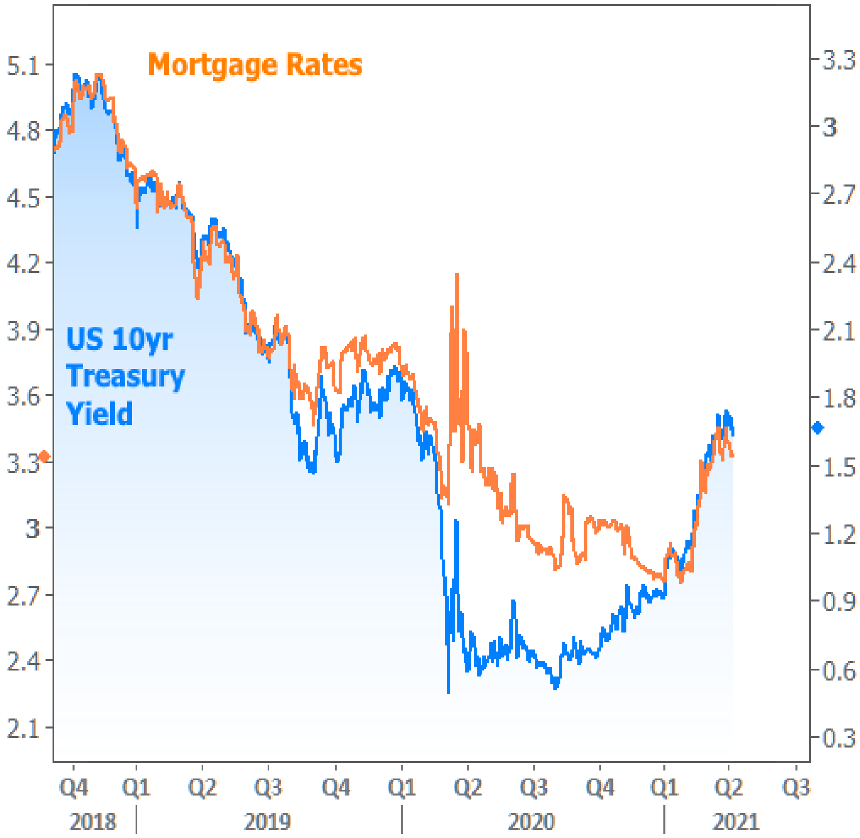
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2204	-0.0175
30 YR Treasury	4.4259	-0.0209

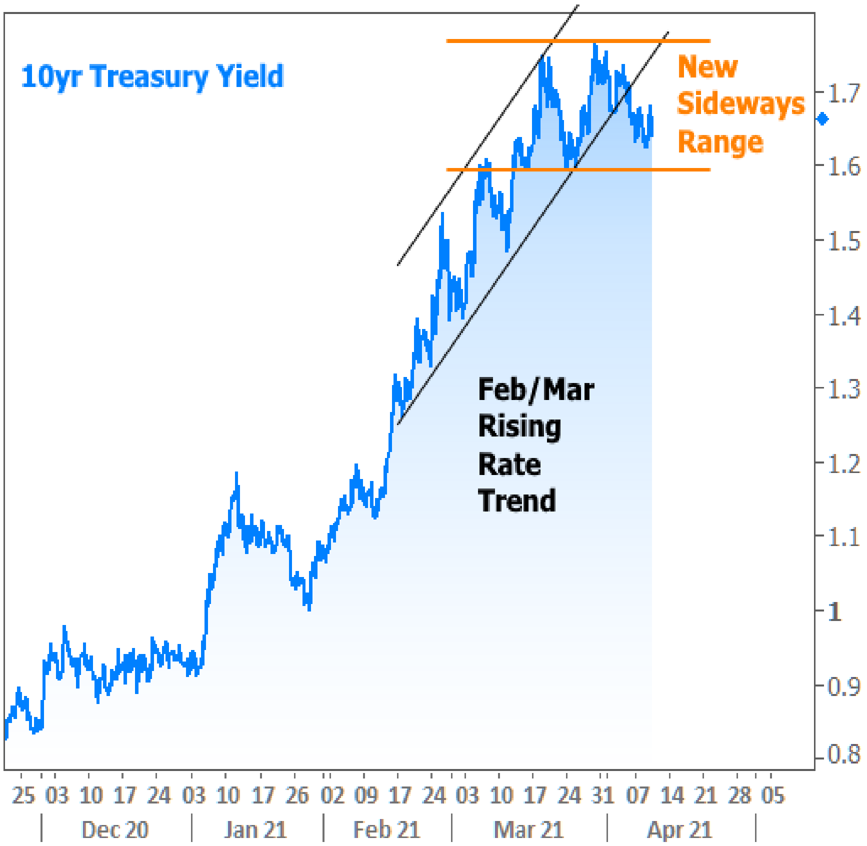
Pricing as of: 7/22 5:59PM EST

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%



If we zoom in on the blue line, we can see 10yr yields departing their prevailing trend for 2021 and starting to move **sideways** in recent weeks.

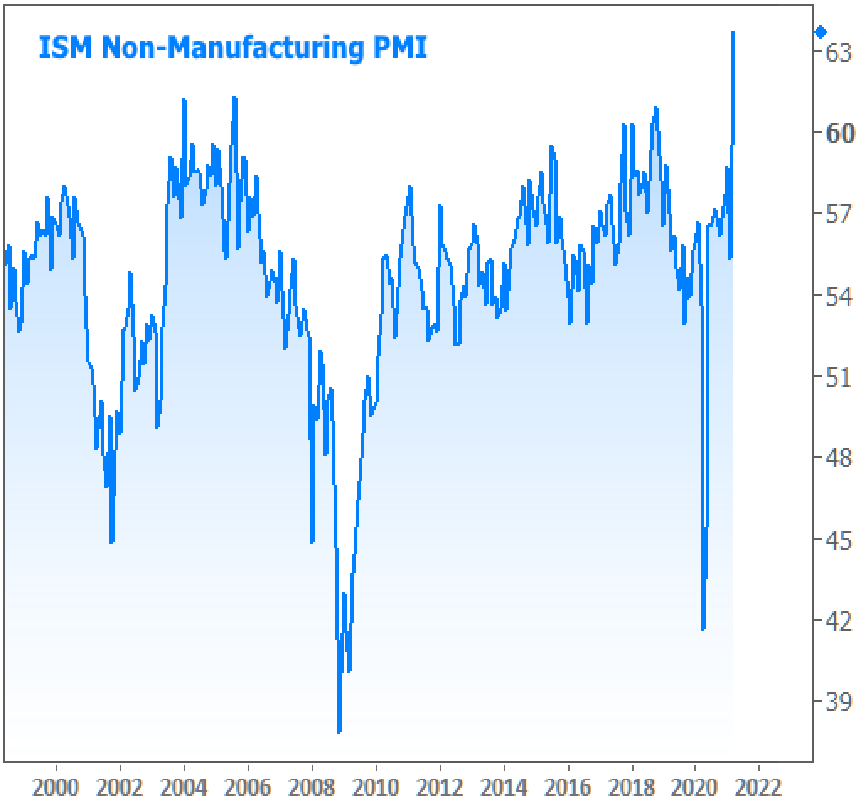


It was only a matter of time before the rate spike gave way to this sort of consolidation. The bigger question is **how long it will last** and how much lower might rates go?

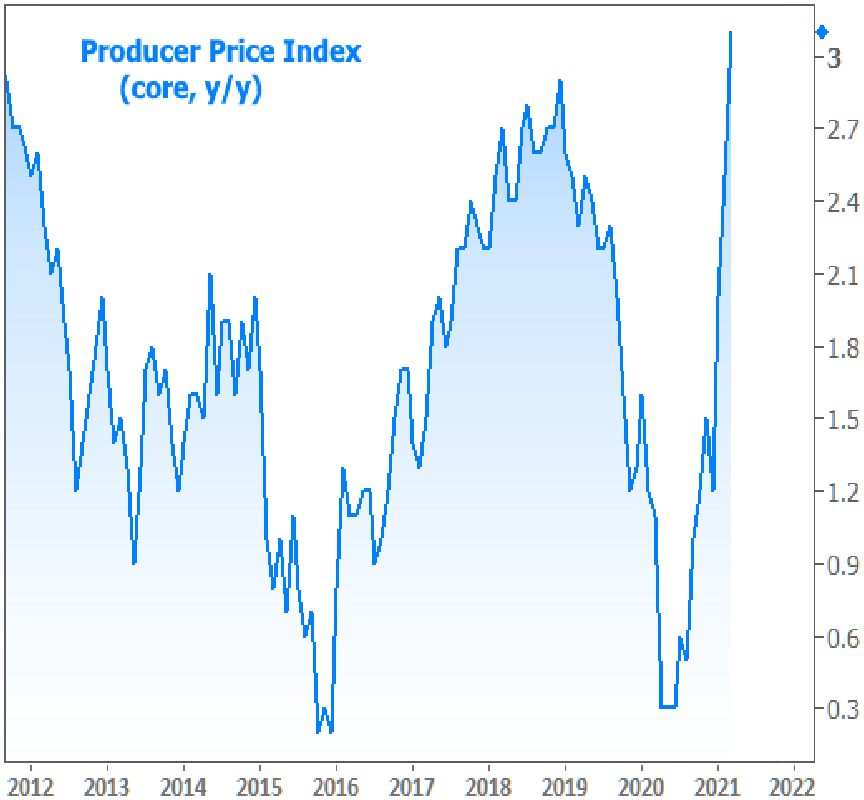
Financial markets are **always** doing their best to **predict** the answers to all those types of questions. In other words, if we knew rates would go much lower or higher with certainty, they'd already be there. Traders are waiting to see if a recent uptick in covid cases poses a material threat. New variants are of particular concern, but financial markets won't be too bothered unless numbers increase enough for more widespread lockdowns.

In general, "bad things" (more covid, weaker economy) are good for rates, but the opposite is also true (less covid and a stronger economy = higher rates). With that general truth in mind, it comes as somewhat of a **surprise** to see this week's strong economic data juxtaposed with the decent showing for rates.

Leading the charge was a key report on the services sector, the ISM Non-Manufacturing Index. Along with its twin report on the Manufacturing sector, ISM provides a timely barometer for the broad economy (we'll be waiting waiting several more weeks for the first Q1 GDP estimate). Getting to the point, this week's ISM report was quite strong--the **strongest on record**, in fact.



The Producer Price Index, which measures inflation at the wholesale level, put on a similar show.



While students of the 70s and 80s will tell you this comes **nowhere close** to a record, it's a lot higher than it was. And high inflation implies higher rates. As such, it would be fair to expect upward pressure on rates, but rates actually **FELL** on the day of the report. They did the same on the day of the strong ISM report--also a counterintuitive movement.

What's up with that?

Remember that sentence about financial markets always trying to trade the future to the best of their ability? This is one big reason for the rate spike already seen in 2021. Markets have **expected** inflation and economic data to improve. In that sense, the strong data is really just confirmation of what was already assumed.

Rates also have considerations beyond the economic data. Covid, of course, is chief among those. If epidemiologists and traders are concerned about rising case counts (and new variants), those concerns can take center stage. After all, the course of the pandemic will ultimately have a **big say** in the trajectory of the economy.

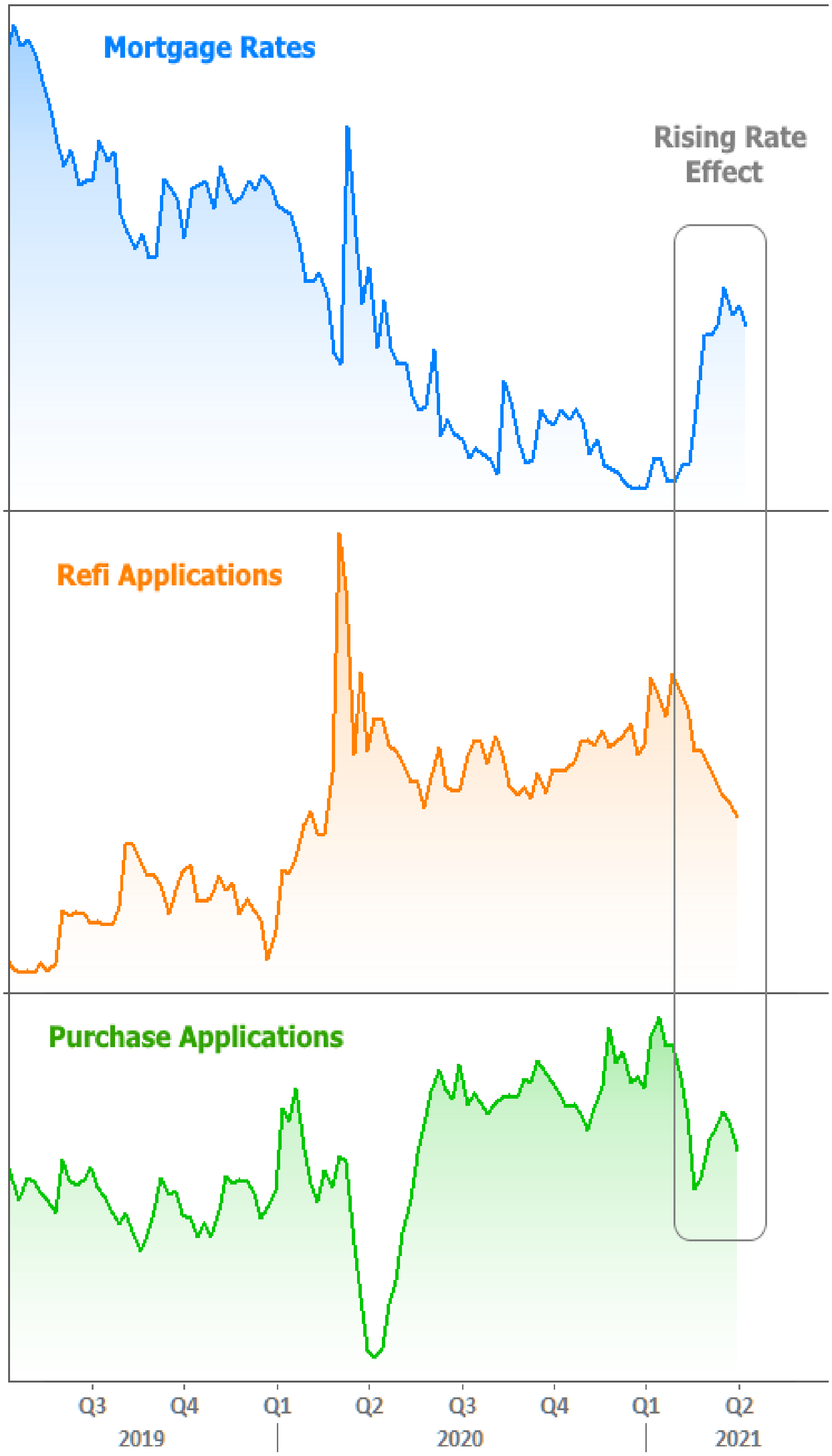
Finally, there are considerations that speak more to the nuts and bolts of the bond market, even if they can be traced back to the pandemic and the economy. Specifically, the **issuance** of **new Treasury debt** (which is used to pay for things like covid relief bills and other federal spending) is one of the most important components of the interest rate equation. Perhaps more than anything else, big increases in Treasury issuance have been responsible for the most obvious upticks in rates at various times over the past 5 years.

With that in mind, **anything** that suggests the government might have a harder time spending as much money as previously thought could be good for rates. West Virginia's Senator Manchin provided exactly that on Thursday with an op-ed that called the $2.3 trillion infrastructure plan into question. Manchin is extremely important on this front because democrats can't pass the legislation without his vote.

Some form of the infrastructure plan will eventually pass, but if it's smaller than $2.3 trillion or if it takes longer to happen, there are incremental benefits for the bond market due to lighter Treasury supply (i.e. downward pressure on rates, all other things being equal).

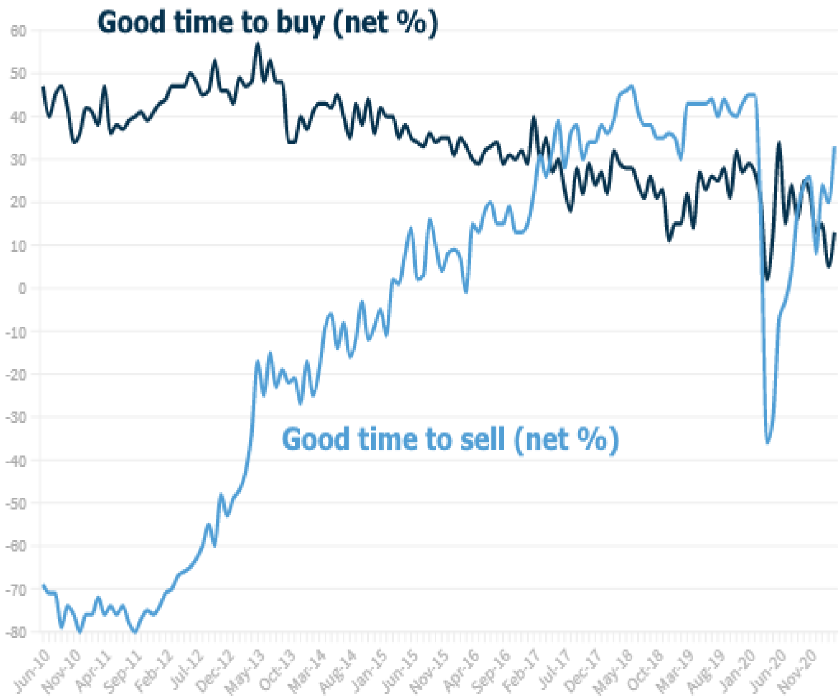
On the demand side of the equation, we'll learn more about how traders are feeling next week. Monday and Tuesday bring 3 big Treasury auctions (3 and 10yr notes on Mon and 30yr bonds on Tue). Bidding statistics are released immediately following the auctions and can have a noticeable impact on rates--occasionally **setting the tone for entire weeks** in 2021.

For all the focus on rates, **what's the damage?** We looked at that in terms of sales and prices last week, so let's look at mortgage applications this week. There's no question that apps are down due to the rate spike.



But if we zoom out, we can see that current levels are still **well above** those seen in 2019. In fact, you'd have to go **all the way back** to early 2013 to see more refinance demand and **more than a decade** to see higher purchase demand, and that's with the lowest inventory levels on record. Purchase applications would likely be significantly higher if inventory were anywhere close to pre-pandemic levels.

The inventory situation could improve if Fannie Mae's Housing Survey is any indication. The number of respondents who said it was a "**good time to sell**" surged to the highest level since before the pandemic.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Apr 05				
10:00AM	Mar ISM N-Mfg PMI	63.7	59.0	55.3
10:00AM	Feb Factory orders mm (%)	-0.8	-0.5	2.6
Wednesday, Apr 07				
7:00AM	w/e MBA Purchase Index	283.6		297.3
7:00AM	w/e MBA Refi Index	3068.8		3242.1
8:30AM	Feb International trade mm $ (bl)	-71.1	-70.5	-68.2
3:00PM	Feb Consumer credit (bl)	+27.58	5.00	-1.31
Thursday, Apr 08				
8:30AM	w/e Jobless Claims (k)	744	700	719
Friday, Apr 09				
8:30AM	Mar Producer Prices (%)	1.0	0.5	0.5
8:30AM	Mar Core Producer Prices YY (%)	3.1	2.7	2.5
10:00AM	Feb Wholesale sales mm (%)	-0.8	1.4	4.9
10:00AM	Feb Wholesale inventories mm (%)	0.6	0.5	0.5
Monday, Apr 12				
11:30AM	3-Yr Note Auction (bl)	58		

Event Importance:

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

Date	Event	Actual	Forecast	Prior
1:00PM	10-yr Note Auction (bl)	38		
Tuesday, Apr 13				
8:30AM	Mar Core CPI (Annual) (%)	1.6	1.5	1.3
1:00PM	30-Yr Bond Auction (bl)	24		
Wednesday, Apr 14				
7:00AM	w/e MBA Purchase Index	279.5		283.6
7:00AM	w/e MBA Refi Index	2916.7		3068.8
8:30AM	Mar Import prices mm (%)	1.2	1.0	1.3
8:30AM	Mar Export prices mm (%)	2.1	1.0	1.6
Thursday, Apr 15				
8:30AM	Apr Philly Fed Business Index	50.2	42.0	51.8
8:30AM	Mar Retail Sales (%)	9.8	5.9	-3.0
8:30AM	Apr NY Fed Manufacturing	26.30	20.00	17.40
9:15AM	Mar Industrial Production (%)	1.4	2.8	-2.2
10:00AM	Feb Business Inventories (%)	0.5	0.5	0.3
10:00AM	Apr NAHB housing market indx	83	83	82
Friday, Apr 16				
8:30AM	Mar House starts mm: change (%)	19.4		-10.3
8:30AM	Mar Building permits: number (ml)	1.766	1.750	1.720
8:30AM	Mar Housing starts number mm (ml)	1.739	1.617	1.421
8:30AM	Mar Build permits: change mm (%)	2.7		-8.8
10:00AM	Apr 5yr Inflation Outlook (%)	2.7		2.7
10:00AM	Apr Consumer Sentiment	86.5	89.6	84.9
10:00AM	Apr 1yr Inflation Outlook (%)	3.7		3.1

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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