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Why Did Rates Completely Ignore This Week's Bad News?

This week, the Fed announced a reduction in its bond buying. In separate news, the big jobs report was much stronger than expected. Both of these events should have pushed rates higher. So why didn't they?

Let's start with the Fed and its bond buying adventures (also known as QE or "quantitative easing"). The following chart of 10yr Treasury yields (a broad benchmark for "rates") shows the paradoxical reactions to the Fed's previous decisions to stop buying bonds.

In other words, we knew a paradoxical reaction was a **possibility**, even though past precedent is never a guarantee. Beyond that, we also knew that rates were moving higher in anticipation of the Fed's eventual exit. In fact, by last week, they'd already covered as much ground as they did in 2013.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.44%	-0.04	0.00
15 Yr. Fixed	5.97%	-0.03	0.00
30 Yr. FHA	5.90%	-0.04	0.00
30 Yr. Jumbo	6.66%	-0.02	0.00
5/1 ARM	6.32%	-0.06	0.00
Freddie Mac			
30 Yr. Fixed	6.46%	-0.40	0.00
15 Yr. Fixed	5.62%	-0.54	0.00

Rates as of: 8/23

Market Data

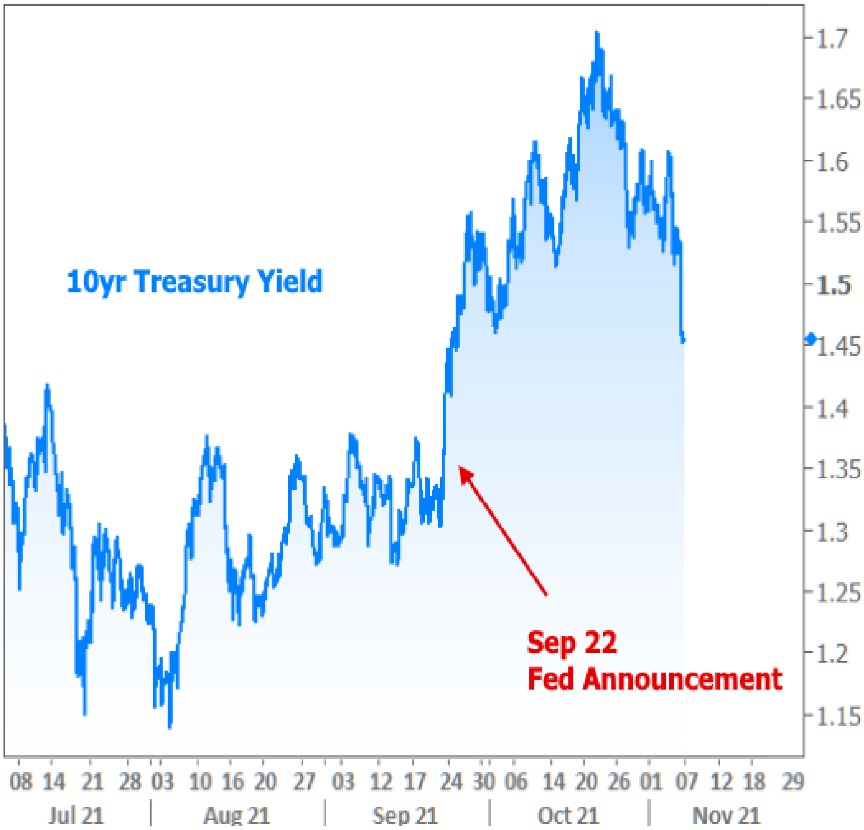
	Price / Yield	Change
MBS UMBS 5.5	100.93	+0.26
MBS GNMA 5.5	100.83	+0.22
10 YR Treasury	3.7999	-0.0531
30 YR Treasury	4.0908	-0.0309

Pricing as of: 8/23 5:59PM EST

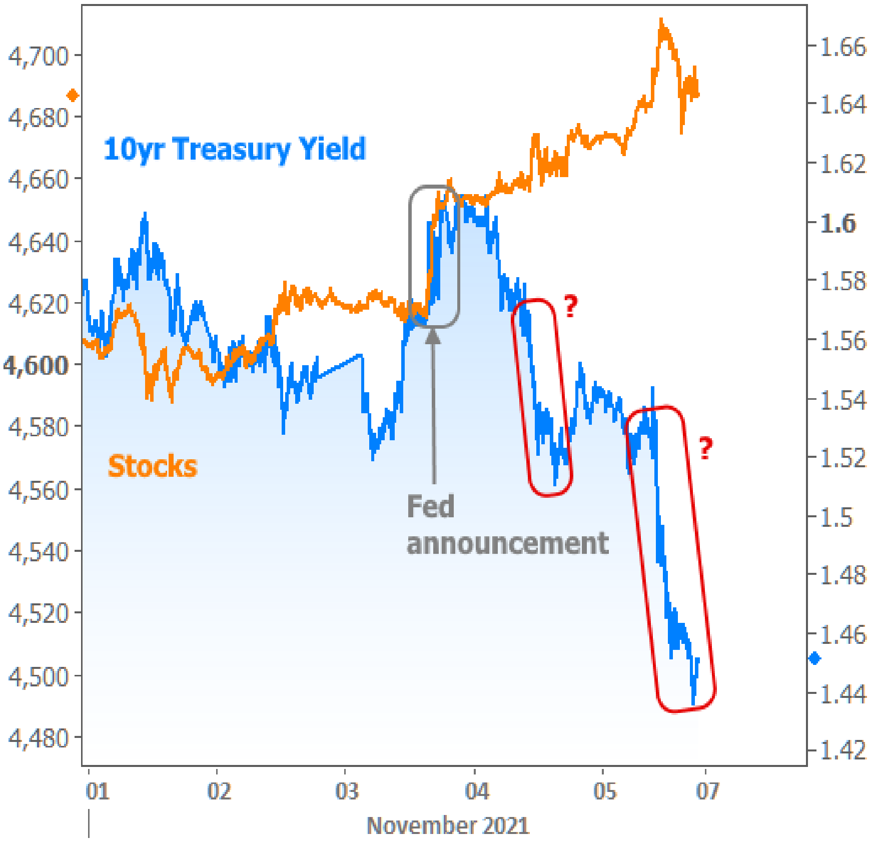
Recent Housing Data

		Value	Change
Mortgage Apps	Aug 14	251.3	+16.83%
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%

All that to say the reaction to the Fed announcement has arguably been in the works for more than a year. In that sense, it definitely **did** push rates higher, but far in advance. September 22nd offered the most recent example when the Fed most overtly telegraphed the contents of this week's announcement.



Incidentally, the bond market's first reaction to this week's tapering announcement was also to move slightly higher in rate. The recovery didn't happen until the following day. So what caused that drop in yields? And how about the even more puzzling drop the next morning after the strong jobs report (both "drops" seen in the red highlighted areas below)?

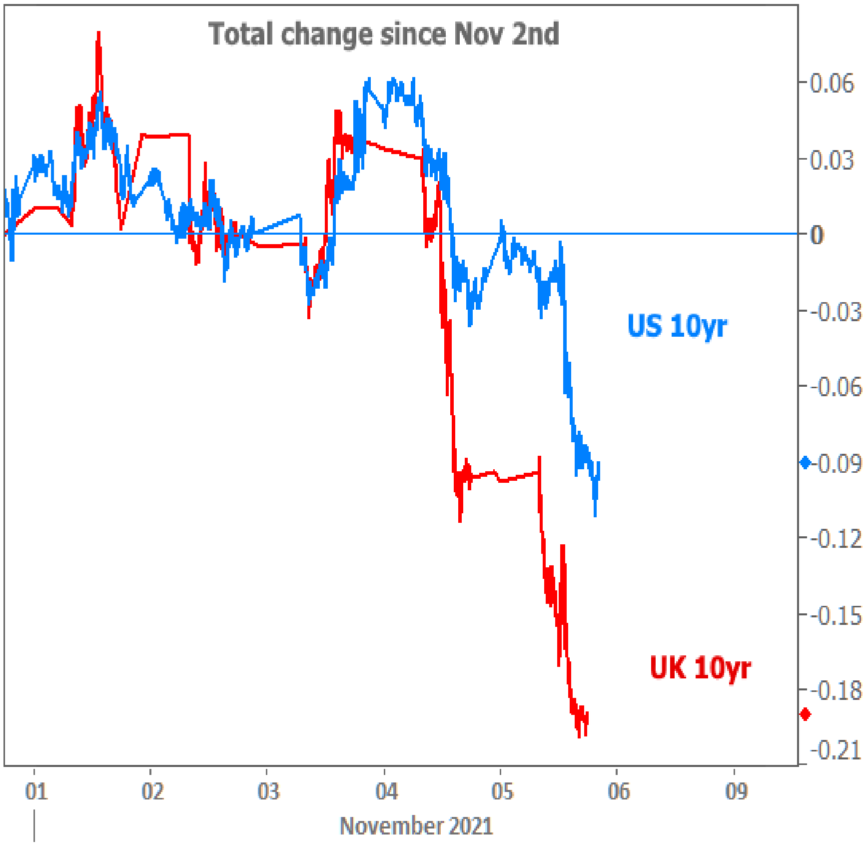


These sorts of pops and drops rarely boil down to only one root cause. Some traders aren't even taking such timely events into consideration. But if we had to pick **only one** leading suspect--the unexpected catalyst for most of the other drama--it would be the Bank of England (BOE).

The BOE?! **Does that even matter** to rates in the US?

Yes, in fact there's a strong correlation between bond yields in the US and Europe. Each will take turns providing inspiration for the other. The correlations are especially noticeable when one of the major central banks sparks a big move in the respective country's sovereign debt yields.

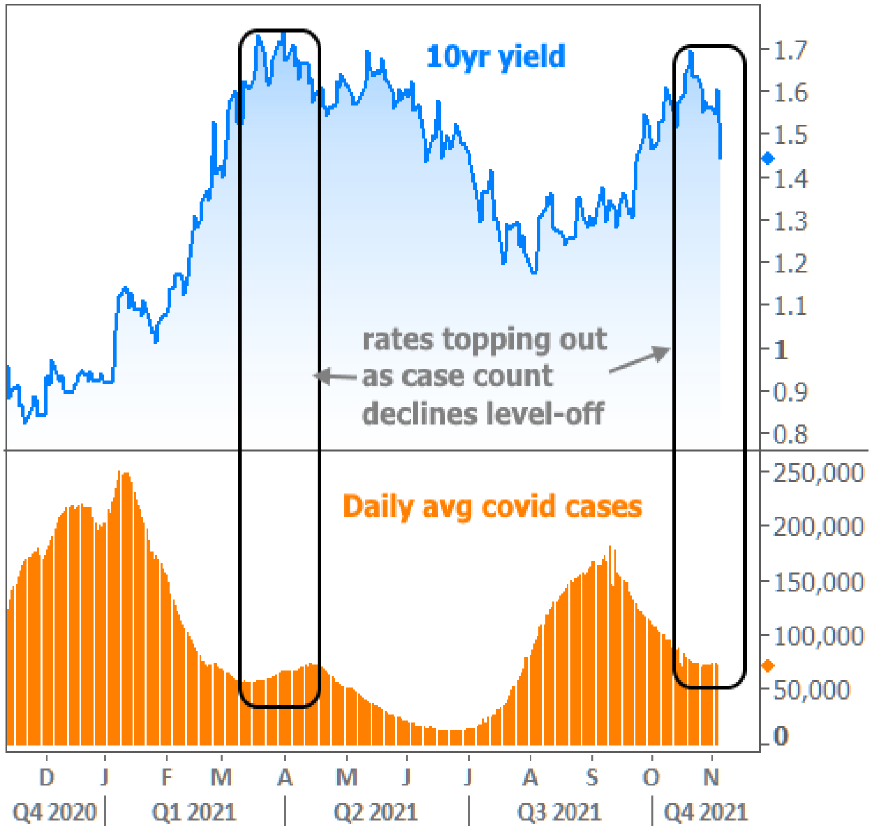
In other words, if the BOE does something to make British bonds drop precipitously, that will almost always result in at least **some** downward pressure on US bond yields. With that in mind, let's look at another version of the chart above. This time, we'll examine the outright change in US 10yr yields since Tuesday, and compare that to the outright change in British 10yr yields.



If anything, the US bond market was trying to **resist** the pull of the British bond market on Thursday. When the assault continued on Friday, it forced traders to close (or "cover") bets on higher yields (aka "short positions"). The result is known as a "short squeeze," and its momentum is only limited by the amount of short positions in the market (and there were a ton of them).

Bottom line: a surprisingly bond-friendly series of events in the UK spilled over to put downward pressure on US yields. US traders weren't prepared for yields to move as low as they did and thus were forced to capitulate by buying more bonds (which pushes yields even lower) in order to close their short positions. Lastly, if we had any doubts about the British inspiration, we can simply observe the red line dropping more than twice as much as the blue line since Tuesday.

In the much bigger picture, we can also keep an eye out for shifts in the relationship between covid and the market. To some extent, we're seeing a similar pattern play out to the one earlier in 2021 when case counts stopped declining and rates stopped rising.



How did all of the above translate to mortgage rates? The bonds that underlie mortgage rates won't ever move as much as Treasuries when the key catalyst is overseas bond drama, but they still had a great week. Lenders were increasingly willing to pass along the bond market gains in the form of lower mortgage rates. By Friday afternoon, the average lender had shaved off around 0.125% from this week's 30yr fixed offerings.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Nov 01				
10:00AM	Oct ISM Manufacturing PMI	60.8	60.5	61.1
Wednesday, Nov 03				
7:00AM	w/e MBA Purchase Index	271.1		275.6
7:00AM	w/e MBA Refi Index	2645.0		2763.8
8:15AM	Oct ADP National Employment (k)	571	400	568
10:00AM	Sep Factory orders mm (%)	0.2	0.0	1.2
10:00AM	Oct ISM N-Mfg PMI	66.7	62.0	61.9
2:00PM	N/A FOMC rate decision (%)	0 - 0.25	0.125	0.125
2:30PM	Powell Press Conference			
Thursday, Nov 04				
8:30AM	w/e Jobless Claims (k)	269	275	281

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Friday, Nov 05				
8:30AM	Oct Non-farm payrolls (k)	531	450	194
8:30AM	Oct Unemployment rate mm (%)	4.6	4.7	4.8
Monday, Nov 08				
1:00PM	3-Yr Note Auction (bl)	56		
Tuesday, Nov 09				
8:30AM	Oct Core Producer Prices YY (%)	6.8	6.8	6.8
Wednesday, Nov 10				
8:30AM	Oct Core CPI (Annual) (%)	4.6	4.3	4.0
8:30AM	Oct Consumer Price Index (CPI) (%)	0.9	0.6	0.4
10:00AM	Sep Wholesale inventories mm (%)	1.4	1.1	1.1
Friday, Nov 12				
10:00AM	Nov Consumer Sentiment	66.8	72.4	71.7
Wednesday, Jan 12				
1:00PM	10-yr Note Auction (bl)	36		
Thursday, Jan 13				
1:00PM	30-Yr Bond Auction (bl)	22		

National Association of Realtors - New Rules & Open Houses

New rules stemming from the National Association of Realtors' commission lawsuit settlement went into effect Saturday following years of litigation, potentially upending the industry, including how agents get paid.

This week, I have been hearing from agents, brokers, MLS executives, portals and other insiders as the rules roll out.

COMMISSION QUESTIONS: In the wake of NAR's new settlement rules, many buyer's agents are suddenly confronting a new question: What commission should they ask for in their buyers' broker representation agreements?

Here are a few responses found in a real estate master-mind group:

"I'm asking the buyer to pay my rate but advising them the seller may be offering something towards that," one agent responded. "If that's the case they only have to pay what's left."

"Sit down with your buyer and a trusted loan officer" another suggested. "Have the loan officer complete the various costs including your compensation and without any compensation (seller contributes). Once the buyer sees how much they have to come up with, they can make a decision. Then you make yours."

Some commenters also said that their brokers are making recommendations.

"This thread is illegal," one commenter argued, echoing a number of other remarks. "It is price fixing and the whole reason the U.S. Department of Justice got involved. Commission/Concessions should only be discussed between the agent and his/her client, never among agents."

The debate highlights the fact that many practical issues stemming from the settlement are yet to be worked out — and that additional litigation is top of mind for many real estate professionals,

OPEN HOUSE, OPEN QUESTION: Among the real estate professionals watching how the settlement changes unfolded this weekend was Randy Bell of Life Realty – The District in Henderson, NV who told me that "Buyers appear to be leery about signing short-term agreements and may favor open houses over individual tours until they're at ease with the rule." He went on to state "It'll be very interesting to see whether open house traffic increases, which I expect it will once buyers understand they don't have the same friction with agreements by going directly to open houses,"

One stat I'm going to be looking at is the number of open houses relative to active listings. I'll have numbers for you in the weeks to come. …More to follow in future Newsletters.

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

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