



Tom Payne

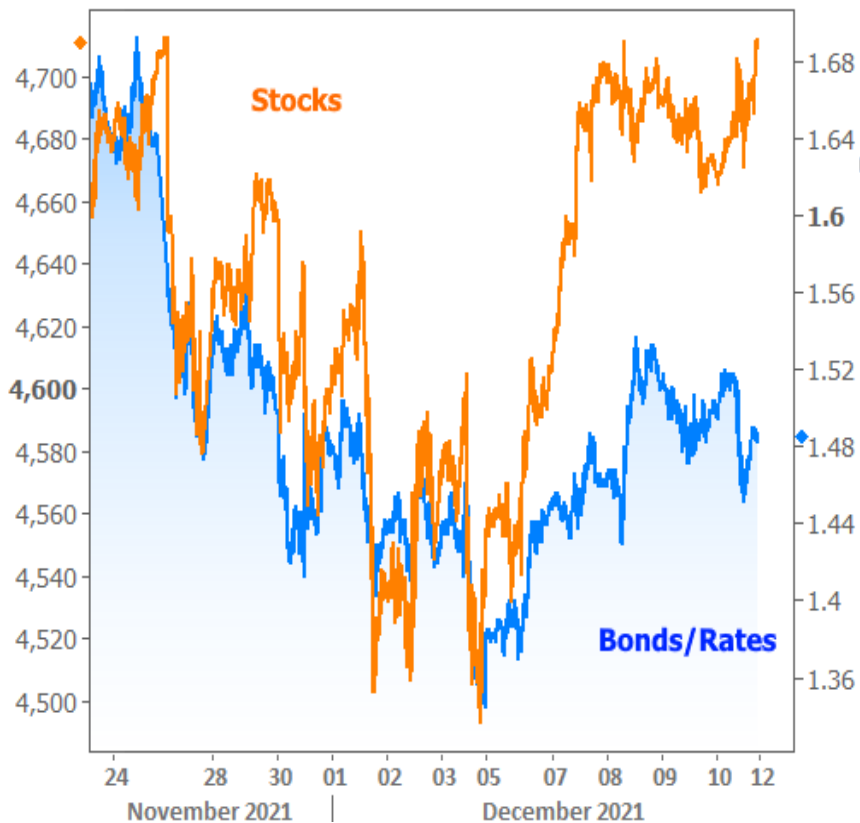
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Volatility Has Been High, But Next Week Could Be Worse

Financial market volatility increased noticeably after the emergence of the omicron variant. Last week, that proved to be good for rates and bad for stocks. This week was a different story.

While the collective view of omicron remains cautious, several high profile comments pushed back against the defensive reaction seen in the previous week. Stocks eagerly bounced back toward pre-omicron levels and bonds reluctantly followed.



If anything, the half-hearted move in the bond market is encouraging for rates. It speaks to a certain level of demand in the marketplace in light of other headwinds.

Several of those headwinds have already been resolved this week. They included things like the scheduled Treasury auction cycle, elevated corporate bond issuance, and the release of the CPI (consumer price index) inflation

National Average Mortgage Rates



	Rate	Change	Points
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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

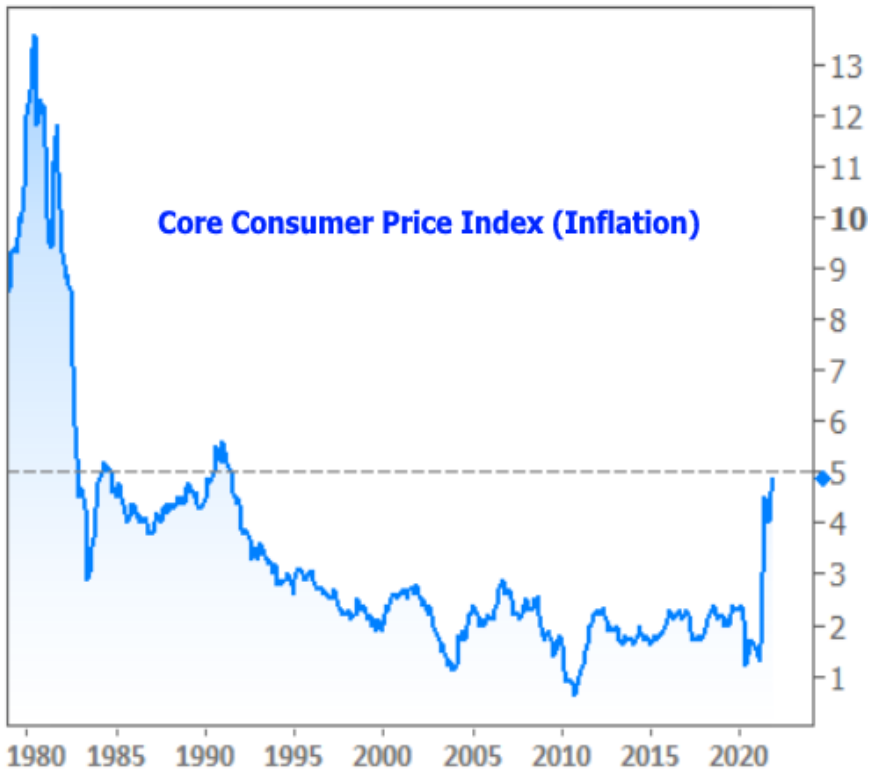
	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2525	+0.0146
30 YR Treasury	4.4725	+0.0257

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

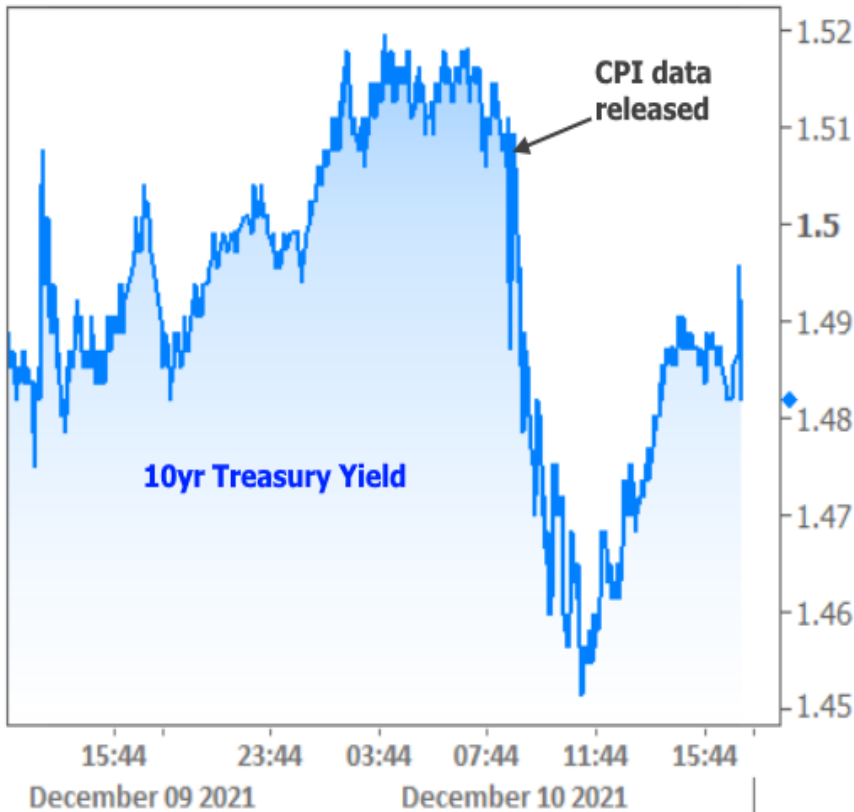
Recent Housing Data

		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%

data for November.



While CPI rose to the highest levels in more than 30 years, the number was right in line with economists' forecasts. Traders were prepared for it to be a bit higher than expected based on the bond market rally that followed. Bonds don't like inflation, so if yields are falling after an inflation report, bond traders were prepared for the news to be worse.



If traders are nervous, it has a lot to do with next week's scheduled policy announcement from the Federal Reserve. Fed speakers have been vocal about the likelihood that tapering needs to accelerate.

"Tapering" refers to the gradual decrease in the amount of bonds the Fed buys each month. That bond buying is thought to be an important ingredient in the low interest rate equation. In the past, rates moved quickly higher when tapering was announced.

This time around, we already knew about tapering. In fact, the process has already begun. But the Fed is increasingly concerned about inflation--concerned enough to taper at a faster pace in order to remove accommodation from the economy. The Fed has also generally conveyed that it would like to finish tapering before hiking the Fed Funds Rate--a policy change meant to fight inflationary pressures.

By coming in "as-expected," this week's inflation data only adds to next week's potential volatility. Had inflation been much higher than expected, we would have seen rates move up on Friday in order to prepare for the likelihood of tougher talk from the Fed.

Had inflation been lower than expected, we would have seen the opposite move.

As it stands, the market is fairly split as to what the Fed will say. They have several options ranging from "doing nothing" all the way to doubling the current pace of tapering. If they choose either of those extremes, the ensuing volatility would also be extreme--at least in the context of recent trading ranges.

In addition to the Fed's decision on tapering, this will also be one of the 4 meetings per year that includes updated economic projections. The most important part of those projections is the forecast for future rate hikes, affectionately known as "the dots" due to its presentation in dot plot format.

A lot has happened between now and the previous release of the dots back in September. That means the market consensus could be farther away from the Fed consensus than normal. The bigger that gap, the greater the potential volatility. The Fed announcement and dot plot will be released on Wednesday afternoon at 2pm ET.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Dec 07				
8:30AM	Q3 Labor Costs Revised (%)	9.6	8.3	8.3
1:00PM	3-Yr Note Auction (bl)	54		
Wednesday, Dec 08				
7:00AM	w/e MBA Purchase Index	295.2		310.7
7:00AM	w/e MBA Refi Index	2511.5		2304.5
Thursday, Dec 09				
8:30AM	w/e Jobless Claims (k)	184	215	222
10:00AM	Oct Wholesale inventories mm (%)	2.3	2.2	2.2
Friday, Dec 10				
8:30AM	Nov Core CPI (Annual) (%)	4.9	4.9	4.6
8:30AM	Nov Consumer Price Index (CPI) (%)	0.8	0.7	0.9

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
10:00AM	Dec 1yr Inflation Outlook (%)	4.9		4.9
10:00AM	Dec Consumer Sentiment	70.4	67.1	67.4
10:00AM	Dec 5yr Inflation Outlook (%)	3.0		3.0
Tuesday, Dec 14				
8:30AM	Nov Producer Prices (%)	+0.8	0.5	0.6
8:30AM	Nov Core Producer Prices YY (%)	+7.7	7.2	6.8
Wednesday, Dec 15				
7:00AM	w/e MBA Purchase Index	297.2		295.2
7:00AM	w/e MBA Refi Index	2350.5		2511.5
8:30AM	Nov Retail Sales (%)	0.3	0.8	1.7
10:00AM	Dec NAHB housing market indx	84	83	83
10:00AM	Oct Business Inventories (%)	1.2	1.1	0.7
2:00PM	N/A FOMC rate decision (%)	0.000 - 0.250	0.125	0.125
Thursday, Dec 16				
8:30AM	Nov House starts mm: change (%)	11.8		-0.7
8:30AM	Dec Philly Fed Business Index	15.4	30.0	39.0
8:30AM	Nov Build permits: change mm (%)	3.6		4.2
8:30AM	Nov Housing starts number mm (ml)	1.679	1.568	1.520
8:30AM	Nov Building permits: number (ml)	1.712	1.663	1.653
9:15AM	Nov Industrial Production (%)	0.5	0.7	1.6
Wednesday, Jan 12				
1:00PM	10-yr Note Auction (bl)	36		
Thursday, Jan 13				
1:00PM	30-Yr Bond Auction (bl)	22		

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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