US Housing Market Weekly

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Higher Rates Due to The Fed, But Not Due to The Fed's Rate Hike

The Federal Reserve hiked rates by 0.75% this week and 30yr fixed mortgage rates moved moderately higher. Interestingly enough, those two things are fairly unrelated.

The Fed Funds Rate (the thing the Fed "hikes" when you hear about the Fed hiking rates) applies to overnight loans among large financial institutions. It's important, to be sure, but it only changes 8 times a year whereas securities in the bond market change every second of the day.

There are all kinds of bonds. US Treasuries are the quintessential example. The yield on a 10yr US Treasury is the most popular benchmark for longer-term interest rates in the world. There are bonds that underlie the mortgage market as well (MBS or mortgage-backed-securities). They tend to move a lot like US Treasuries. There are even bonds that traders use to bet on the future level of the Fed Funds Rate (incidentally called "Fed Funds Futures").

With that in mind, the bond market has LONG since assumed the Fed would hike 0.75% this week. The Fed Funds Futures contract for November was locked into the new rate since late last week and first reached that level in mid September after the CPI inflation data.

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

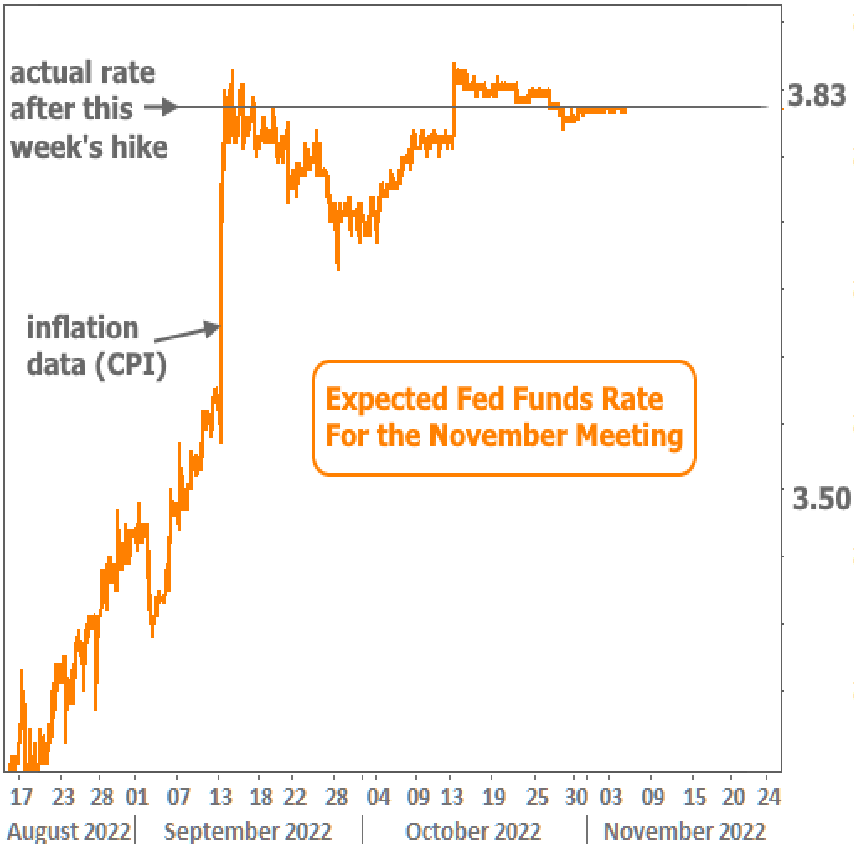
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.38	-0.02
MBS GNMA 5.5	99.77	0.00
10 YR Treasury	4.2525	+0.0146
30 YR Treasury	4.4725	+0.0257

Pricing as of: 7/22 5:05PM 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%



All that to say that new of a 0.75% rate hike isn't really news. Markets have known and had already adjusted. In fact, when the hike was announced, rates actually IMPROVED for several minutes.

The improvements were possible because when the market is already certain of the rate hike outcome, it focuses its reaction on any changes in the WORDS of the policy statement that the Fed releases along with the rate hike. In this week's case, traders were hoping to get some indication that the Fed was getting close to having a discussion about slowing the pace of rate hikes. This is essentially the "pivot" concept we discussed last week (get caught up here if you missed it).

While it was very carefully worded, Wednesday's announcement actually included an allusion to pivot potential. This was a surprise for many market participants. Most felt that the pivot would be discussed by Fed Chair Powell in the press conference that follows the announcement 30 minutes later. It was this verbiage change that enabled the brief bond market rally (note: bond rallies imply lower rates, all other things being equal).

> "In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. "

That's the Fed's way of saying it realizes there have been a lot of hikes already and that it could take some time for those hikes to have an impact on inflation, thus opening the door for them to consider hiking more slowly going forward. Indeed, we would hear several Fed speakers confirm this by Friday, saying that 0.50% hikes would be just as effective, but the market needs to know that there could simply be **more of them!**

If the statement was the extent of Wednesday's communication, bonds/rates would have had a solid enough week, but remember that press conference with Fed Chair Powell? That didn't go so well, and not for any complicated reasons.

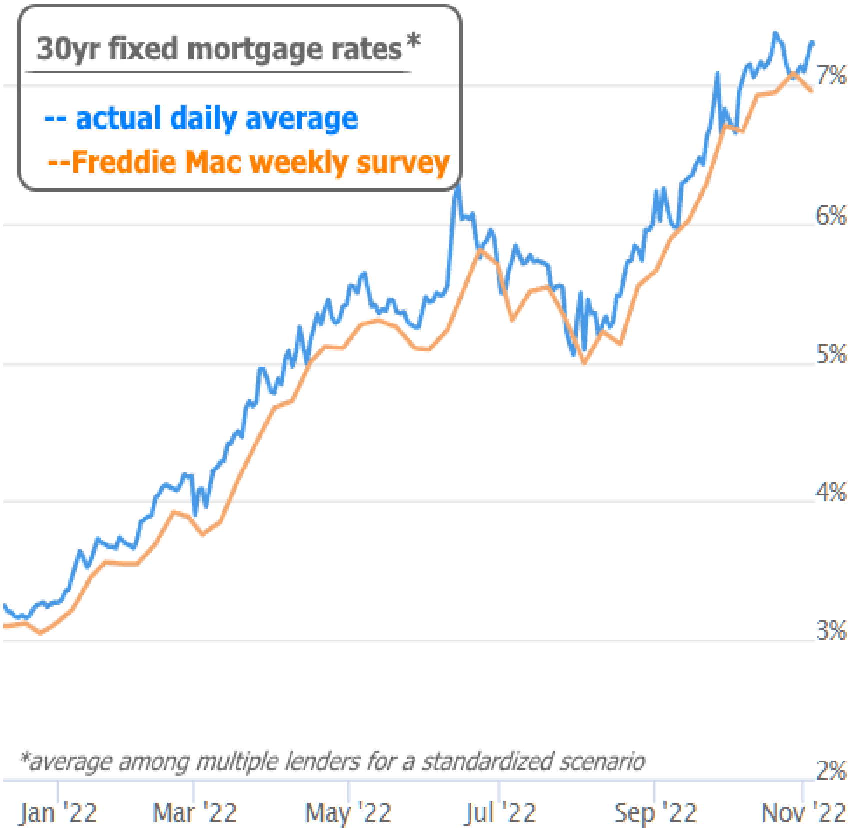
While Powell acknowledged the Fed would discuss slowing the pace of hikes, he was very clear in saying the fight against inflation was far from over. Specifically, he said there was no indication that inflation is coming down and that it's not time to even discuss the notion of "pausing" rate hikes. He also said that the Fed members' individual rate hike forecasts in December were likely to be higher than they were in September. The press conference ended with him saying inflation was becoming more and more challenging to deal with, and that required more restrictive policy.

Markets don't like more restrictive policy, even if the goal is ideally better for markets in the long run. Stocks slid and rates spiked on that news. Most mortgage lenders issued mid-day rate increases. The change wasn't extreme in the context of other recent moves, but it was nonetheless not what anyone was hoping to see after the coast looked to be clear after the initial policy announcement.

This week's volatility aside, the more important events for bonds/rates are yet to come. The Fed, after all, is only responding to changes in economic data when deciding on its rate hike pace. The most important report to watch in that regard is the Consumer Price Index (CPI), which will be out next Thursday.

A note on this week's rate headlines:

Multiple news outlets cited lower rates this week, but those news stories are based on stale data. Freddie Mac's weekly mortgage rate survey comes out on Thursday, but only really measures Monday and Tuesday. This week, that meant comparing the lowest rates of this week to last week's highest rates. But rates had already fallen by the end of last week and then spent most of this week moving higher. If the Freddie survey were a day to day number, it would be back up in the low 7% range as opposed to the high 6's



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Oct 31				
9:45AM	Oct Chicago PMI	45.2	47.0	45.7
Tuesday, Nov 01				
10:00AM	Oct ISM Mfg Prices Paid	46.6	52.5	51.7
Wednesday, Nov 02				
7:00AM	w/e MBA Refi Index	386.7		394.7
7:00AM	w/e MBA Purchase Index	160.5		160.4
8:15AM	Oct ADP jobs (k)	239	195	208
2:00PM	N/A FOMC rate decision (%)	3.750 - 4.000	3.875	3.125
2:30PM	Fed Chair Powell Press Conference			
Thursday, Nov 03				
8:30AM	Sep Trade Gap (bl)	-73.3	-72.2	-67.4
8:30AM	w/e Jobless Claims (k)	217	220	217
10:00AM	Oct ISM N-Mfg PMI	54.4	55.5	56.7
10:00AM	Sep Factory orders mm (%)	0.3	0.3	0.0
Friday, Nov 04				
8:30AM	Oct Average earnings mm (%)	0.4	0.3	0.3
8:30AM	Oct Non-farm payrolls (k)	261	200	263
8:30AM	Oct Unemployment rate mm (%)	3.7	3.6	3.5
Monday, Nov 07				
3:00PM	Sep Consumer credit (bl)	+24.98	30.00	32.24
Tuesday, Nov 08				
1:00PM	3-Yr Note Auction (bl)	40		
Wednesday, Nov 09				
7:00AM	w/e MBA Refi Index	373.1		386.7
7:00AM	w/e MBA Purchase Index	162.6		160.5
Thursday, Nov 10				
8:30AM	Oct y/y CORE CPI (%)	6.3	6.5	6.6
8:30AM	Oct m/m CORE CPI (%)	0.3	0.5	0.6
8:30AM	Oct m/m Headline CPI (%)	0.4	0.6	0.4
8:30AM	Oct y/y Headline CPI (%)	7.7	8.0	8.2
8:30AM	w/e Jobless Claims (k)	225	220	217
Friday, Nov 11				
10:00AM	Nov Consumer Sentiment	54.7	59.5	59.9
Wednesday, Jan 11				
1:00PM	10-yr Note Auction (bl)	32		
Thursday, Jan 12				

Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

Date	Event	Actual	Forecast	Prior
1:00PM	30-Yr Bond Auction (bl)	18		

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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