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Plenty of Movement, Not Much Progress; More Volatility Ahead

The first week of any given month tends to have the highest concentration of economic data with the power to influence the bond market, and thus interest rates. This week was no exception.

In addition to the scheduled economic data, there was unscheduled drama in the banking sector. This involved the orderly failure of First Republic Bank, rumors of other imminent bank failures, and a run on various bank stocks that ultimately required multiple "circuit breakers" (temporary halts to trading due to the size and speed of price changes).

Bank drama coincided with lower job openings on Tuesday morning to send bond yields lower on Tuesday morning. This was easier to see in 2yr Treasury yields compared to the 10yr Treasuries that we typically follow because shorter-term bonds have more in common with the Fed Funds Rate.

A day later, we heard from the Fed itself with the widely anticipated 0.25% hike to the Fed Funds Rate. Despite the hike, interest rates continued broadly lower into mid week ([here's why](#)) before bouncing after Friday's stronger jobs report.

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

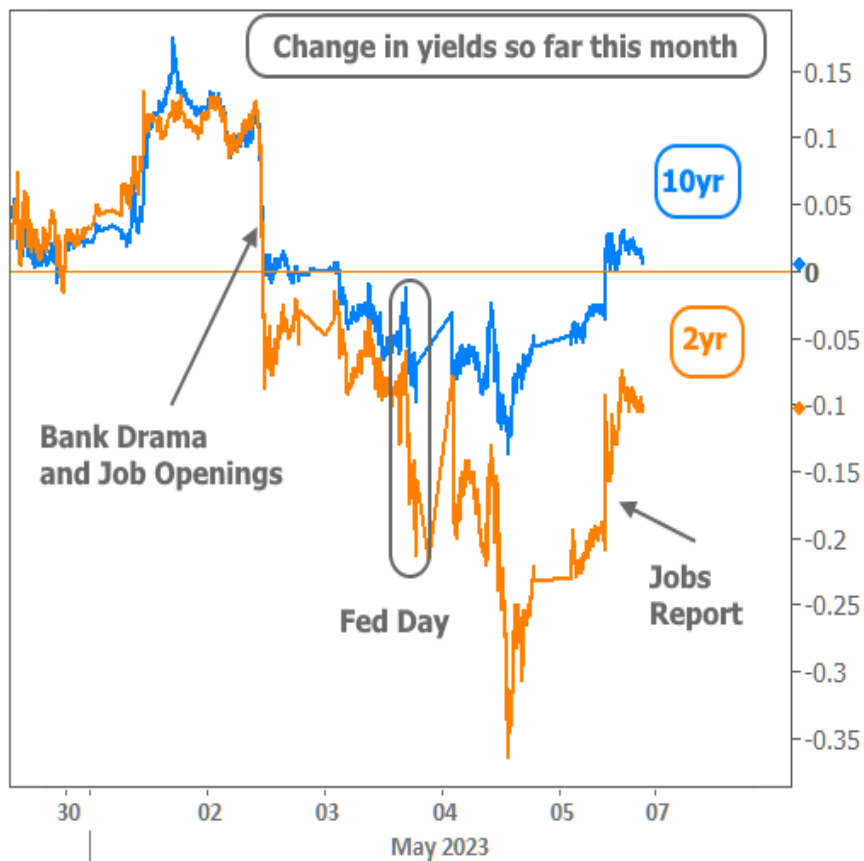
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.37	-0.03
MBS GNMA 5.5	99.76	-0.01
10 YR Treasury	4.2599	+0.0220
30 YR Treasury	4.4776	+0.0308

Pricing as of: 7/22 3:05PM 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 told, 10yr yields traded a range of roughly 0.25% whereas 2yr yields saw a range closer to 0.50%. That's a volatile week by any standard, but it nonetheless failed to blaze any new trails with respect to the range we've been following in the 10yr. One might have argued that yields were pushing the lower boundary of the range had it not been for NFP ("nonfarm payrolls," the main component of the jobs report) on Friday.



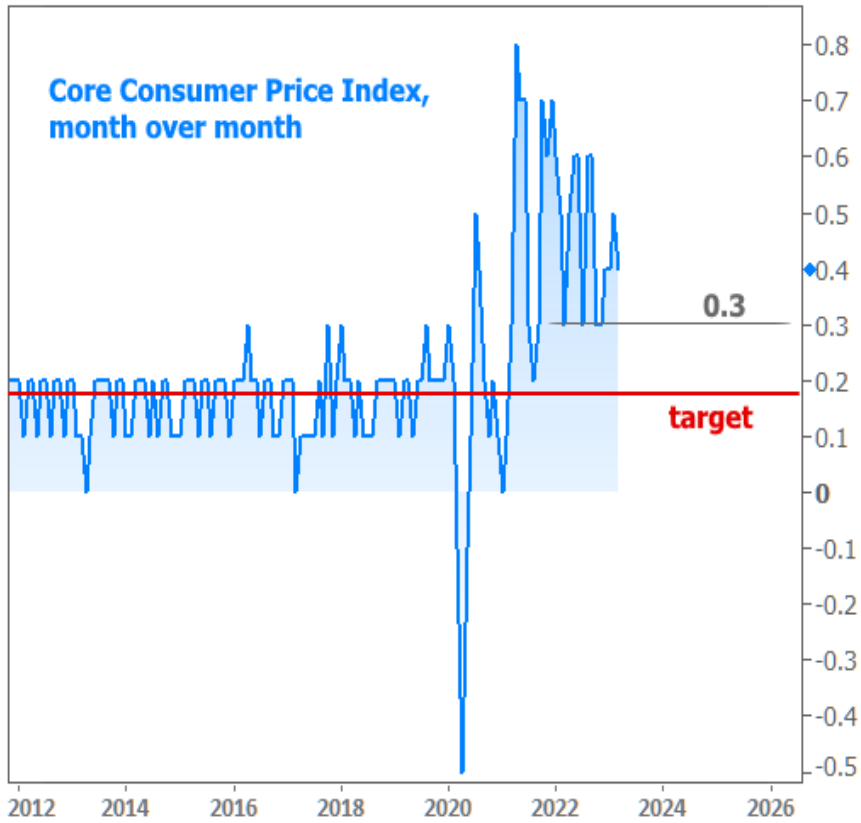
Mortgage rates haven't necessarily been keeping pace with Treasuries, but they've been just as sideways. In fact, rates have been consolidating in a narrower pattern surrounding a conventional 30yr fixed rate of 6.5%.



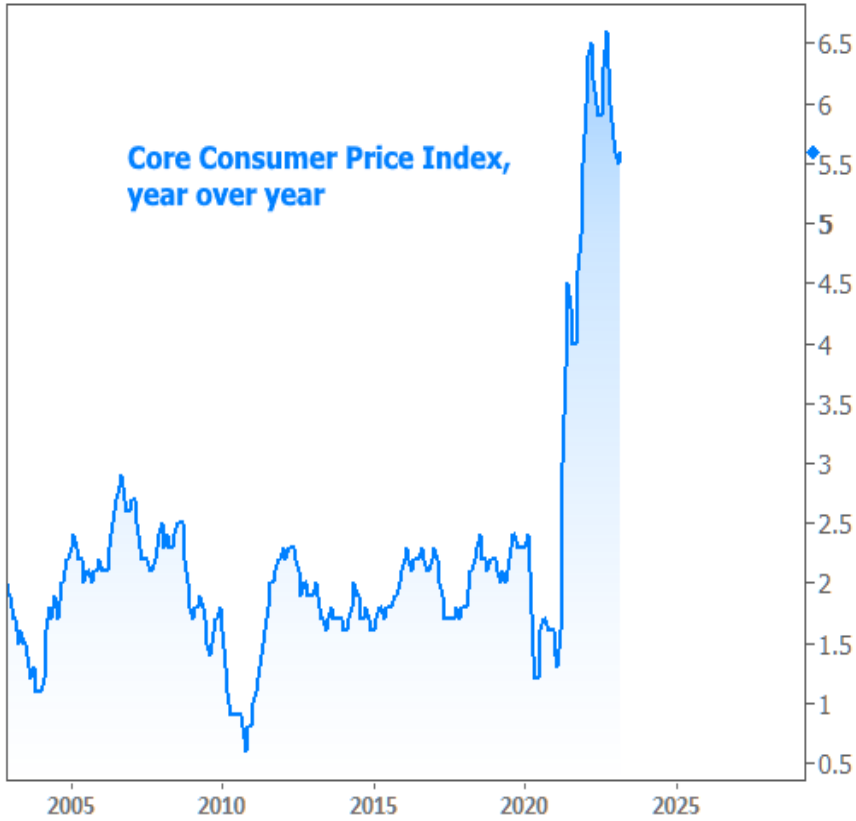
Whereas this week's volatility was well-distributed across multiple days and events, next week's potential volatility is highly concentrated on Wednesday morning. That's when the latest monthly installment of the Consumer Price Index (CPI) will be released.

CPI is the biggest market mover among the various inflation reports that come out each month. It's the only report that could legitimately challenge NFP as THE most important monthly data over the past few years. Every new update on inflation is particularly interesting right now because the market is actively trying to determine if inflation is check and declining, or if it is persistent enough as to require more rate hikes from the Fed. This indecision is what the consolidation pattern in mortgage rates is all about.

The most important figure in the CPI data is the monthly "core" reading which excludes more volatile, less elastic food and energy prices. It topped out at 0.8% at the highest levels and although it has come down a bit, it's still well above the target range.



It will take 12 months of 0.167% core inflation to hit the 2% target. Obviously, there's a long way to go, but if the market is convinced that we're headed in that direction, rates would be much lower than they are now. The year-over-year chart is still anything but convincing.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, May 01				
10:00AM	Mar Construction spending (%)	0.3	0.1	-0.1
10:00AM	Apr ISM Manufacturing PMI	47.1	46.8	46.3
Tuesday, May 02				
10:00AM	Mar Factory orders mm (%)	0.9	1.1	-0.7
Wednesday, May 03				
7:00AM	w/e MBA Purchase Index	165.8		169.1
8:15AM	Apr ADP jobs (k)	296	148	145
10:00AM	Apr ISM N-Mfg PMI	51.9	51.8	51.2
2:00PM	N/A FOMC rate decision (%)	5.000 - 5.250	5.125	4.875
2:30PM	Powell Press Conference			
Thursday, May 04				
7:30AM	Apr Challenger layoffs (k)	66.995		89.703
8:30AM	Q1 Labor Costs Preliminary (%)	6.3	5.5	3.2
8:30AM	w/e Jobless Claims (k)	242	240	230
Friday, May 05				

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Apr Average earnings mm (%)	0.5	0.3	0.3
8:30AM	Apr Non-farm payrolls (k)	253	180	236
8:30AM	Apr Unemployment rate mm (%)	3.4	3.6	3.5
Monday, May 08				
10:00AM	Mar Wholesale inventories mm (%)	0.0	0.1	0.1
Tuesday, May 09				
1:00PM	3-Yr Note Auction (bl)	40		
Wednesday, May 10				
7:00AM	w/e MBA Purchase Index	173.7		165.8
8:30AM	Apr y/y CORE CPI (%)	5.5	5.5	5.6
8:30AM	Apr m/m Headline CPI (%)	0.4	0.4	0.1
8:30AM	Apr m/m CORE CPI (%)	0.4	0.4	0.4
8:30AM	Apr y/y Headline CPI (%)	4.9	5.0	5.0
Thursday, May 11				
8:30AM	Apr Core Producer Prices YY (%)	3.2	3.3	3.4
8:30AM	Apr Core Producer Prices MM (%)	0.2	0.2	-0.1
8:30AM	w/e Jobless Claims (k)	264	245	242
Friday, May 12				
10:00AM	May Consumer Sentiment	57.7	63.0	63.5
Wednesday, Jul 12				
1:00PM	10-yr Note Auction (bl)	32		
Thursday, Jul 13				
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

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

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