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Slow Start for Rates Gives Way to Volatility With More to Come Next Week

The week began with a distinct absence of interest rate volatility, but things changed in a big way by Friday--at least compared to the previous week which was exceptionally quiet.



In the bigger picture, however, it was just another week that felt volatility in the short term due to a surprising rate spike on Friday.

National Average Mortgage Rates



Rate Change Points

Mortgage News Daily

30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00

Freddie Mac

30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Rates as of: 6/28

Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3980	+0.1111
30 YR Treasury	4.5640	+0.1383

Pricing as of: 6/28 5:59PM EST

Recent Housing Data

	Value	Change
Mortgage Apps	Jun 12 208.5	+15.58%
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%



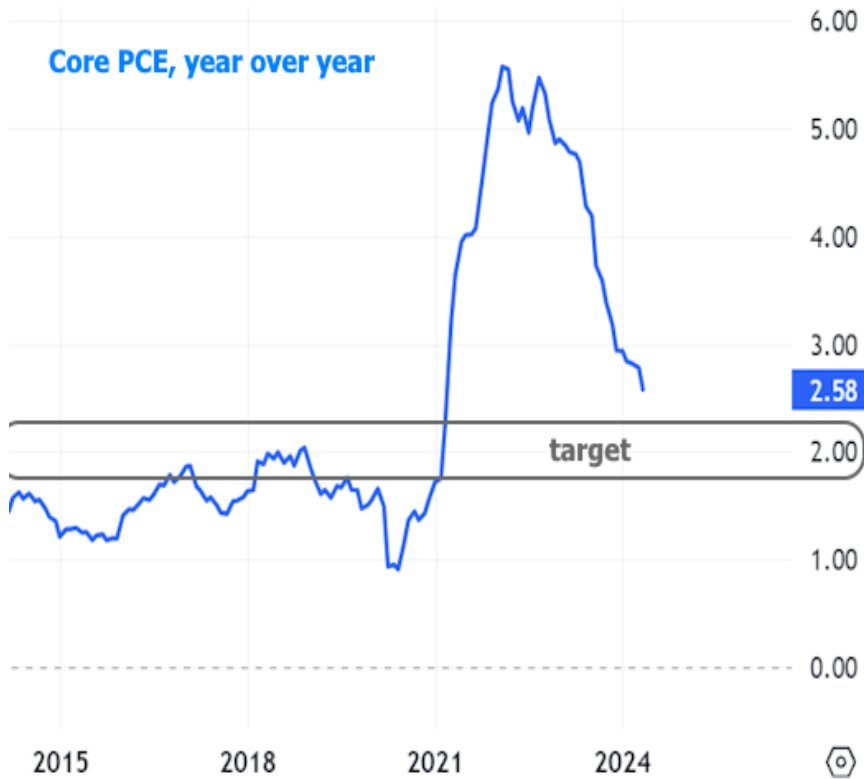
Incidentally, the fact that this week's rate spike occurred at the end of the week means that Freddie Mac's weekly mortgage rate index missed detecting the shift. More timely daily data shows average mortgage rates trending slightly higher this week as opposed to lower.



The most eagerly anticipated data was the PCE price index for May. This is a similar measure of inflation to CPI (the Consumer Price Index) that came out 2 weeks ago. Core PCE, which excludes more volatile food and energy prices, was even more favorable for the inflation outlook.



The chart above may make it seem that inflation has returned to the target level, but success is measured by the year over year numbers hitting 2%. The Fed has indicated it would consider rate cuts when it was more confident about hitting 2%. We're definitely not there yet, but arguably getting closer.



Friday afternoon saw an abrupt reversal in rates tied to the compulsory trading that often creates volatility at the end of a month/quarter (Friday was both). There is no rhyme or reason to month-end trading when it comes to a typical impact. In other words, it can be good or bad for rates. We don't get to know ahead of time. This time it was bad.

Some rate watchers entertained the notion that the presidential debate had an impact, but while that may have contributed to market volatility, the timing of the volume and volatility makes a strong case for month/quarter-end trading. Simply put, if the debate were the x factor, we would not have expected the market to wait until the times of day typically associated with month-end trading to make the biggest trades.

Up until Friday, we didn't see any notable reactions to economic reports or scheduled events. There was a smattering of housing-related data with limited conclusions to be drawn. Sales of existing homes are still in the historical basement according to the Pending Home Sales Index.

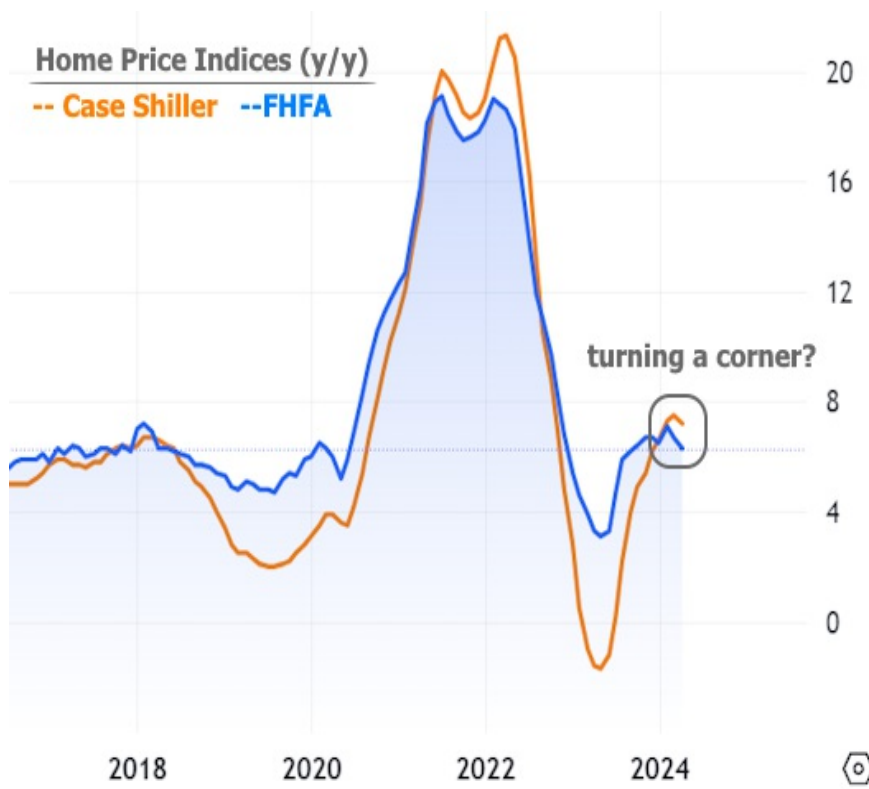
Pending Home Sales



Sales of new homes are also near their recent lows, but remain much higher relative to pre-pandemic levels.



Home price indices were updated for Case Shiller and FHFA. Unlike the sales data above, which is for the month of May, price indices run a month behind (i.e. this is only through April). Current annual appreciation is still historically high, but increasingly looks like it may have leveled off.



Looking ahead, next week brings just as much potential volatility--if not more--due to the release of several top tier economic reports. Of those, Friday's big jobs report has the most power to send rates higher or lower. Timing could add to the drama this time as markets are closed on Thursday for the 4th of July.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jun 25				
9:00AM	Apr Case Shiller Home Prices-20 y/y (%)	7.2%	6.9%	7.5%
9:00AM	Apr FHFA Home Prices y/y (%)	6.3%		6.7%
Wednesday, Jun 26				
7:00AM	Jun/21 MBA Purchase Index	147.8		146.0
7:00AM	Jun/21 MBA Refi Index	552.4		552.7
10:00AM	May New Home Sales (ml)	0.619M	0.64M	0.634M
Thursday, Jun 27				
8:30AM	Jun/22 Jobless Claims (k)	233K	236K	238K
8:30AM	Jun/15 Continued Claims (ml)	1839K	1820K	1828K
8:30AM	May Durable goods (%)	0.1%	-0.1%	0.7%
8:30AM	Q1 GDP (%)	1.4%	1.4%	3.4%
10:00AM	May Pending Home Sales (%)	-2.1%	2.5%	-7.7%
Friday, Jun 28				
8:30AM	May Core PCE Inflation (y/y) (%)	2.6%	2.6%	2.8%
8:30AM	May Core PCE (m/m) (%)	0.1%	0.1%	0.2%
9:45AM	Jun Chicago PMI	47.4	40	35.4
10:00AM	Jun Consumer Sentiment (ip)	68.2	65.8	69.1

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Upcoming Economic Data

Date	Event	Forecast	Prior
Monday, Jul 01			
10:00AM	Jun ISM Manufacturing PMI ★★★	49	48.7
10:00AM	Jun ISM Mfg Prices Paid ★	55.9	57.0
Tuesday, Jul 02			
9:30AM	Fed Chair Powell Speech ★★★		
10:00AM	May USA JOLTS Job Openings ★	7.85M	8.059M
Wednesday, Jul 03			
8:15AM	Jun ADP jobs (k) ☆	170K	152K
8:30AM	Jun/29 Jobless Claims (k) ☆	235K	233K
10:00AM	May Factory orders mm (%)	0.3%	0.7%
10:00AM	Jun ISM Services Prices		58.1

Date	Event	Forecast	Prior
10:00AM	Jun ISM N-Mfg PMI ★★	52.5	53.8
2:00PM	FOMC Minutes ★★		
Friday, Jul 05			
8:30AM	Jun Average earnings mm (%) ★	0.3%	0.4%
8:30AM	Jun Unemployment rate mm (%) ★★	4%	4%
8:30AM	Jun Non Farm Payrolls ★★	180K	272K

Demand for Homes Drops to (Near) Record Low as Inventory Rises.

“The market is at an interesting point with rising inventory and lower demand”: National Association of Realtors

Let's take a glance at the “pending home sales” data by the National Association of Realtors. It’s a forward-looking indicator of “closed home sales” based on contract signings – on deals that haven’t closed yet and could still fall apart. But today’s release of pending sales was interesting for several reasons, including the NARs’ expectation that the collapsed demand along with rising inventories is going to cause home prices to “stabilize” in the second half of the year. So here we go.

The index value of pending home sales in May dropped by 2.1% from April, and by 6.8% from a year ago, to 70.8 (seasonally adjusted annual rate), what headlines dubbed an “all-time low” or “record low” in the data going back to 2001, and that’s close enough. In the NAR data we have access to via YCharts, today’s reading was still a hair above the prior all-time low of April 2020 (index value of 70). But the idea is the same: demand has collapsed, even as inventories have risen.

The index value was set at 100 for contract signings in 2001. So today’s value of 70.8 is down 29% from the index average in 2001. Compared to the Mays in more recent years:

- May 2022: -28%
- May 2021: -39%
- May 2020: -30%
- May 2019: -33%.

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