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Most Serious Move Higher For Rates in Over a Year

Following last week's announcement from the European Central Bank, the **tone** in rates markets has **shifted**. This time around, it's less about the fear of a potential Fed hike and more about the risk that central banks won't be able to keep longer term rates low forever.

Right now, the **driving force** behind ultra-low long-term rates is central bank bond buying. Even in the US, despite the absence of an official quantitative easing (QE) program, the Fed continues reinvesting the money it receives each month from the mortgages it bought during the the 3 previous QE programs.

Europe and Japan's central banks are **still expanding** their balance sheets. That means they're **pumping new money** into the financial system. Currently, the primary vehicle for this money creation is the purchase of bonds (similar to the Fed's QE programs). This is great for mortgage rates because higher demand for bonds results in lower rates, and central banks are a HUGE source of demand!

But as of late last week, **investors began to worry** that Europe and Japan might be reaching an inflection point where their conversations shift from "should we buy even more bonds?" to "maybe we can get away with buying fewer bonds."

The catalysts were twofold, at least. **First of all**, European Central Bank President Mario Draghi avoided his typical level of reassurance regarding asset purchases and easy money. In separate news, Japanese officials expressed concerns over the efficacy of their central bank's easy money policies.

Speculation is increasing that both banks may run out of bonds to buy, ushering a shift from "monetary accommodation" (easy money from central banks) to "fiscal stimulus" (government programs intended to help their respective economies). The latter is bad for financial markets (including rates) in the short term, because it doesn't involve the creation of new money.

These bigger-picture considerations mean that this week's volatility in rates has much **less** to do with **Fed rate hike fears** (which had been a key consideration in recent weeks). In fact, rate hike expectations have **decreased**, even as 10yr Treasury yields (the best proxy for big-picture momentum in longer-term rates like mortgages) have risen.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.52%	+0.13	0.00
15 Yr. Fixed	6.91%	+0.08	0.00
30 Yr. FHA	7.00%	+0.13	0.00
30 Yr. Jumbo	7.68%	+0.10	0.00
5/1 ARM	7.55%	+0.15	0.00
Freddie Mac			
30 Yr. Fixed	7.17%	-0.27	0.00
15 Yr. Fixed	6.44%	-0.32	0.00

Rates as of: 4/25

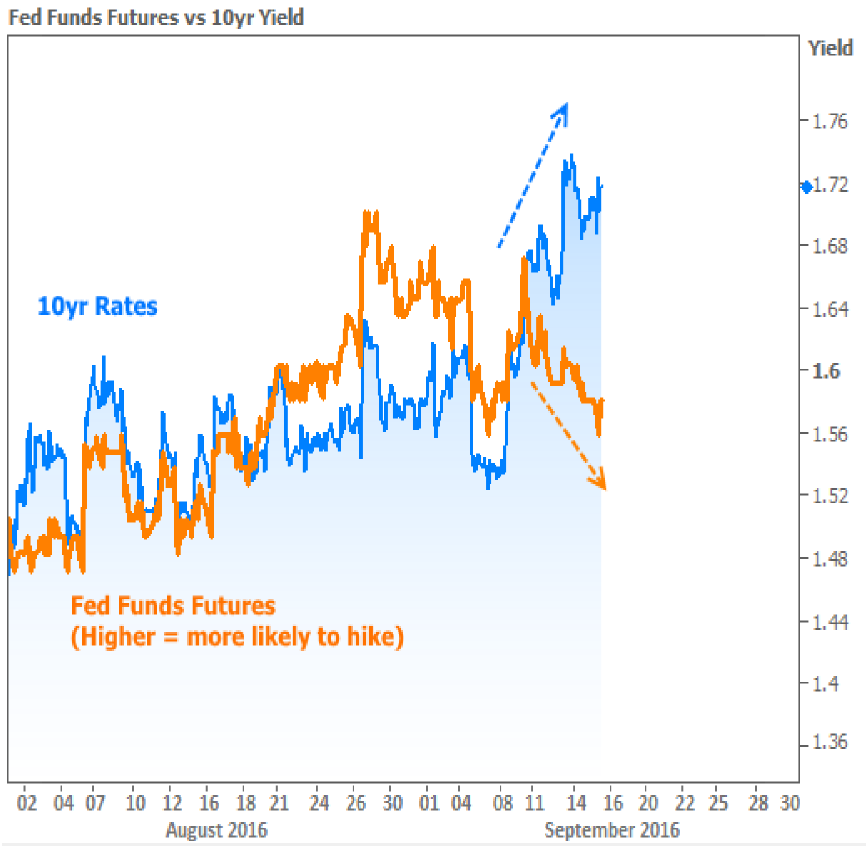
Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.13	-0.31
MBS GNMA 6.0	100.06	-0.19
10 YR Treasury	4.7008	+0.0586
30 YR Treasury	4.8134	+0.0422

Pricing as of: 4/25 3:48PM EST

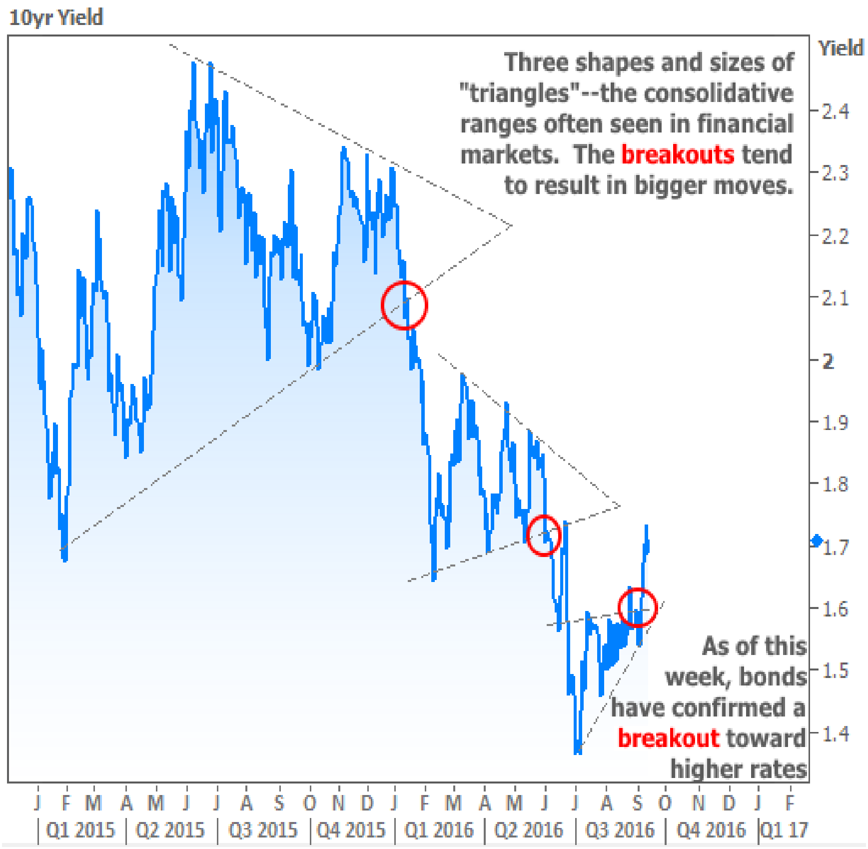
Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
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%



The move in rates is serious. It fits a pattern that some market watchers refer to as a "triangle breakout." The term comes from the lines that can be drawn along the highs and lows of any chart. When those lines converge, prices or yields are consolidating--moving closer together. Such consolidations are often followed by more substantial moves, be they higher or lower.

The thinking is that markets are either finally making a decision after a period of indecisiveness, or simply that they've finally spent enough time finding their footing from the last major move that they're ready for the next one. **Unfortunately** for rates, the current triangle is being broken on the upper line.



There are **two great sources of perspective** though. First of all, consider the depth of the last "triangle breakout" earlier this year. Rates didn't cover too much ground before changing course. In other words, the fact that we're breaking toward higher rates doesn't mean rates have to go significantly higher. It merely identifies the current trend.

The other source of perspective is pretty simple, and it has to do with where we are in the **biggest of pictures**:

Housing News and Economic Data

It was a light week for economic data until Thursday. Multiple reports were released with the most significant--**Retail Sales**--coming in at -0.3 versus a median forecast of -0.1. Odds for a Fed rate hike decreased further following the data, but that wasn't much consolation to mortgage rates, for the reasons discussed above.

In news off the beaten path, CoreLogic highlighted the the interesting phenomenon of **lower-FICO borrowers** increasingly moving away from urban areas.

Next week's **focal point** will be Wednesday's Federal Reserve Announcement. Again, the Fed is not expected to hike rates (although it is technically a possibility), but markets will be very interested to see what Yellen has to say in the press conference following the announcement. Also potentially significant are the updated economic projections from Fed members, released with the announcement at 2pm.

Subscribe to my newsletter online at: http://housingnewsletters.com/kevinlitwicki

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Sep 12				
1:00PM	3-Yr Note Auction (bl)	24		
Wednesday, Sep 14				
8:30AM	Aug Import prices mm (%)	-0.2	-0.1	0.1

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Aug Export prices mm (%)	-0.8	0.1	0.2
Thursday, Sep 15				
8:30AM	Sep Philly Fed Business Index	12.8	1.0	2.0
8:30AM	Aug Retail sales mm (%)	-0.3	-0.1	0.0
8:30AM	Sep NY Fed manufacturing	-1.99	-1.00	-4.21
8:30AM	Aug Producer Prices (%)	0.0	0.1	-0.4
8:30AM	w/e Initial Jobless Claims (k)	260	263	259
9:15AM	Aug Industrial output mm (%)	-0.4	-0.3	0.7
9:15AM	Aug Capacity utilization mm (%)	75.5	75.7	75.9
10:00AM	Jul Business inventories mm (%)	0.0	0.1	0.2
Friday, Sep 16				
8:30AM	Aug CPI mm, sa (%)	+0.2	0.1	0.0
8:30AM	Aug Core CPI yy, nsa (%)	+2.3	2.2	2.2
10:00AM	Sep Consumer Sentiment Prelim	89.8	90.8	89.8
Monday, Sep 19				
10:00AM	Sep NAHB housing market indx	65	60	60
Tuesday, Sep 20				
8:30AM	Aug Housing starts number mm (ml)	1.142	1.190	1.211
8:30AM	Aug Building permits: number (ml)	1.139	1.170	1.144
Wednesday, Sep 21				
2:00PM	N/A FOMC rate decision (%)	0.25-0.50	0.375	0.375
Thursday, Sep 22				
9:00AM	Jul Monthly Home Price mm (%)	0.5		0.2
10:00AM	Aug Existing home sales (ml)	5.33	5.45	5.39
Wednesday, Oct 12				
1:00PM	10-yr Note Auction (bl)	20		
Thursday, Oct 13				
1:00PM	30-Yr Bond Auction (bl)	12		

All Your Mortgage Needs, Professionally Delivered with a Personal Touch

Whether you're a first-time homebuyer hoping to navigate the process of buying a home so that it is a fun and anxiety-free process or a homeowner looking for refinance options that deliver more freedom and flexibility, I can help you analyze your current situation and find money saving options. With expertise in all areas of mortgage and financing, my hope is that once I become your mortgage partner, I'll stay your mortgage partner. With clients from A to Z, files never leave my hands or my desk. From start to finish, every step of the way, my goal is to keep the lines of communication open, provide complete and attentive service, and ensure the most seamless and satisfactory process possible.

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