US Housing Market Weekly

August 4, 2017

Kevin Litwicki - NMLS # 289959

Sr. Mortgage Advisor, Stampfli Mortgage LLC

NMLS # 1598803

303 S. Main Street Verona, WI 53593

Office: 608-572-7522

Fax: 888-988-0013

kevin@stampflimortgage.com

View My Website

Bond Bubble Bursting? Not This Week

One of the week's most interesting headlines came courtesy of the 91-year-old ex-Fed Chair Alan Greenspan who warned of a **bubble bursting** in the bond market. Even if such a thing materializes as a legitimate threat in the future, we're nowhere close at the moment. This week's market movement concurs!

Last week's newsletter discussed the market volatility that can sometimes occur as a result of more esoteric motivations (revisit it here, if you like). These can include things like **compulsory** trades based on changes in an index, or even simply in rates and prices themselves (i.e. traders forced to buy/sell for reasons unrelated to economic data or news).

These less overt market movers are more common at the end of any given month, as well as the first few days of the following month. Last week, they accounted for a rate spike that occurred well before the Fed Announcement (ostensibly the week's focal point). This week, they accounted for a big move in the **other** direction, although they may have had some help.

Right at the time traders were making these "new month" trades (Tuesday morning), GM released **abysmal** sales data. It was bad enough that traders treated it like a form of weak economic data (which can create excess demand for bonds and thus, lower rates). This may have added to the bond buying that was **already** underway.

While we **can't** know exactly how much of the move was driven by the esoteric factors compared to the GM sales data, we **can** see it was certainly the defining moment of the week for rates. From that point on, traders attempted to get in position for what they thought would be a **weaker jobs report** on Friday--the most important economic data on the calendar. When the report **topped** expectations, rates quickly returned to the same levels seen just after Tuesday morning's big move.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.16%	+0.01	0.00
15 Yr. Fixed	6.64%	+0.01	0.00
30 Yr. FHA	6.62%	+0.01	0.00
30 Yr. Jumbo	7.40%	+0.01	0.00
5/1 ARM	7.33%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	7.09%	-0.35	0.00
15 Yr. Fixed	6.38%	-0.38	0.00

Rates as of: 5/10

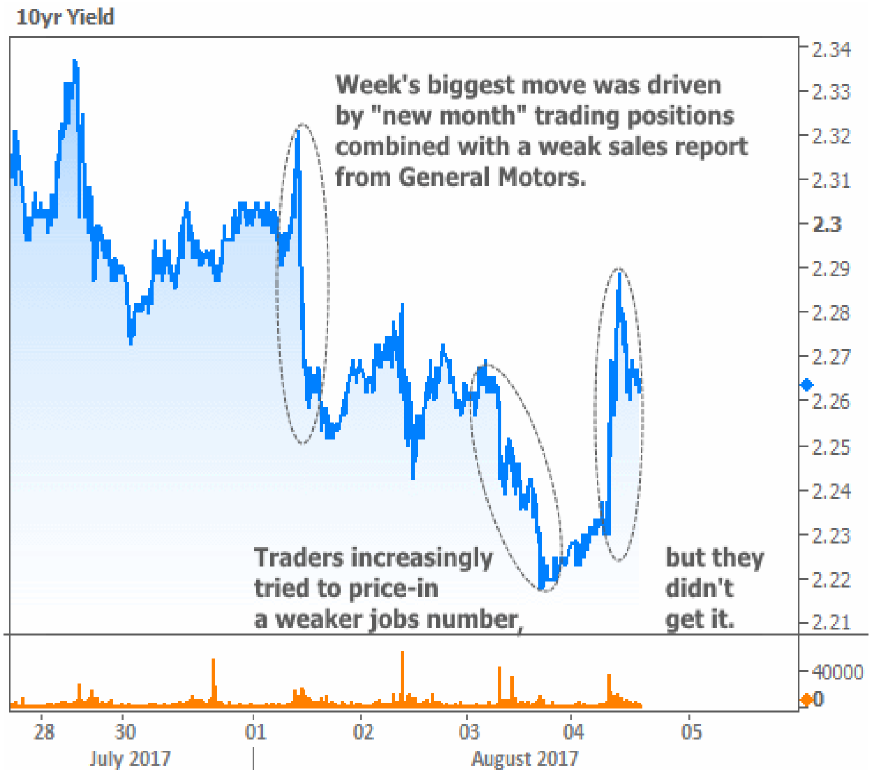
Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.08	-0.20
MBS GNMA 6.0	101.02	-0.13
10 YR Treasury	4.4939	-0.0039
30 YR Treasury	4.6376	-0.0029

Pricing as of: 5/12 10:23PM 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%



Why does it matter that we returned to Tuesday morning's levels? Although it's not of earth-shattering importance, it **is** a testament to the flat ranges seen so far in 2017. For a year that was **supposed** to see a disturbing trend toward higher rates, things have actually been far calmer than average. Since the November presidential election, we've spent about half our time inside ranges no wider than 0.30% in terms of 10yr yields. This week's micro-volatility leaves us right in the middle of the current 0.30% range.

In other words, even though people like Greenspan can hypothesize about **scary bond bubbles**, reality has been f**ar more boring**. Markets aren't even making menacing gestures toward the boundaries of these narrow ranges, let alone surging high enough to even begin discussing the sort of big-picture reversals emblematic of a bursting bond market bubble.

Some basic trend lines drawn over the past few years suggest we'd need to see yields moving over 3.0% before the first alarm bells would be going off. In looking at the same chart, it's also striking to see just how **unique** the early 80's look in the biggest picture.

It's **good to remember** that most anyone with a strong opinion on long-term bond trends will either have lived through that aberrant era or have learned from someone who did. This affects the general paradigm about where rates might go in the future.

"Because they were that high in the past" isn't a great argument for their potential range in the future. That's **not to say** rates simply can't or won't move higher. Indeed they can, and indeed that can be painful for prospective mortgage clients hoping for the best rate.

Rather, **the point is** that we're not on the brink of a catastrophic bubble. We're not even outside the prevailing long term trend! Once we **cross** that boundary (dotted parallel lines in the chart above), it would make more sense to start wondering about where rates might go from there.

In **housing-related news** this week, The National Association of Realtors reported the first increase in 4 months for Pending Home Sales. The Mortgage Bankers Association brought mixed offerings, citing a slight improvement in credit availability, but an across-the-board decline in mortgage applications.

Perhaps the **most interesting development of the week** for the mortgage world had to do with Fannie and Freddie's quarterly financial results. Typically a fairly dry affair, this time around both GSEs alluded to the possibility that the FHFA (the agency that oversees them) would take some action to prevent their "capital buffers" from being drawn down to $0 by the end of the year (which is currently the plan). This could foreshadow something of a battle between congress and the FHFA over who gets to hold on to Fannie and Freddie's profits--or a portion of them anyway.

US Housing Market Weekly

August 4, 2017

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

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jul 31				
9:45AM	Jul Chicago PMI	58.9	60.0	65.7
10:00AM	Jun Pending homes index	110.2		108.5
Tuesday, Aug 01				
8:30AM	Jun Personal income mm (%)	0.0	0.4	0.4
8:30AM	Jun Consumption, adjusted mm (%)	+0.1	0.1	0.1
8:30AM	Jun Core PCE price index yy (%)	+1.5		1.4
10:00AM	Jul ISM Manufacturing PMI	56.3	56.5	57.8
10:00AM	Jul ISM Mfg Prices Paid	62.0	55.5	55.0
10:00AM	Jun Construction spending (%)	-1.3	0.4	0.0
Wednesday, Aug 02				
7:00AM	w/e Mortgage Market Index	406.6		418.5
7:00AM	w/e MBA Purchase Index	235.4		240.1
7:00AM	w/e Mortgage Refinance Index	1361.0		1414.3
8:15AM	Jul ADP National Employment (k)	178.0	185	158
9:45AM	Jul ISM-New York index	745.5		739.1
Thursday, Aug 03				
8:30AM	w/e Initial Jobless Claims (k)	240	240	244
10:00AM	Jul ISM N-Mfg Bus Act	55.9	59.6	60.8
10:00AM	Jul ISM N-Mfg PMI	53.9	57.0	57.4
10:00AM	Jun Factory orders mm (%)	+3.0	2.9	-0.8
Friday, Aug 04				
8:30AM	Jul Non-farm payrolls (k)	+209	183	222
8:30AM	Jul Unemployment rate mm (%)	4.3	4.3	4.4
8:30AM	Jun International trade mm $ (bl)	-43.6	-45.0	-46.5
Tuesday, Aug 08				
1:00PM	3-Yr Note Auction (bl)	24		
Wednesday, Aug 09				
7:00AM	w/e Mortgage Market Index	418.7		406.6
8:30AM	Q2 Productivity Preliminary (%)	+0.9	0.7	0.0
8:30AM	Q2 Labor Costs Preliminary (%)	+0.6	1.2	2.2
10:00AM	Jun Wholesale inventories mm (%)	+0.7	0.6	0.6
Thursday, Aug 10				
8:30AM	Jul Core Producer Prices YY (%)	+1.8	2.1	1.9
Friday, Aug 11				

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★ Very Important

Date	Event	Actual	Forecast	Prior
8:30AM	Jul Core CPI Year/Year (%)	+1.7	1.7	1.7
Wednesday, Oct 11				
1:00PM	10-yr Note Auction (bl)	20		
Thursday, Oct 12				
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.

Kevin Litwicki - NMLS # 289959