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Will Next Week's Fed Announcement Live up to the Hype?

This past week has existed almost exclusively **in the shadow of next week's Fed Announcement**. Whether we're drawing conclusions about the limited amount of economic/housing data or simply considering mortgage rate movements, everything has been "less intense" than it otherwise might be. Even the mighty **Jobs Report** on Friday failed to stir financial markets as they wait to see if the Fed will hike rates next Wednesday.

This is a normal expression of market sentiment when a **major piece of information** is on the horizon. It's especially normal when that big piece of information could send rates quickly higher OR lower. The lack of movement is their way of staying prepared for either outcome.

US Treasuries are the **biggest kids on the interest rate playground**. They serve as the benchmark for most other interest rates in the US. This includes mortgage rates, albeit indirectly. Mortgage rates are based on the prices of mortgage-backed-securities or **MBS**. It's these MBS that share the proverbial playground with Treasuries. Like most other bonds, they tend to move in the same direction as Treasuries, but at a slightly slower pace.

In other words, if something happens that impacts rates in the US, Treasuries tend to **feel it first**. There are notable exceptions though. QE3 was a great example because it specifically targeted MBS for a new round of Fed bond buying in September 2012. In that case, mortgage rates absolutely led the charge lower.

Taking this concept a step further allows us to pose a question about next week's Fed Announcement. We can take that step by considering the differences in the behavior of **short term vs long term rates**. For instance, 2yr Treasuries often move at a distinctly different pace vs 10yr Treasuries, and sometimes even in opposite directions. The Fed Funds Rate (the thing that might be raised next week for the first time in 9 years next week) is an even shorter term rate. In fact, it pertains only to overnight lending rates.

With that in mind, we're ready for the question: will mortgage rates even take much of a hit if the Fed raises rates? After all, the average mortgage lasts about 7 years and tends to behave more like a Treasury note of a similar life-span in terms of how it reacts to news and events.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00

Rates as of: 8/30

Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/1 7:34PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
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 answer is a **resounding "maybe!"** The whole financial world is operating in uncharted waters here. Indeed it's true that longer-term rates, like mortgages, have fared much better than shorter term rates during the time that the Fed has been telegraphing the first rate hike. But there's been so much telegraphing that rates of all shapes and sizes have already had a good opportunity to adjust for the potential changes.

History shows us that longer term rates tend to rise in concert with short term rates, but there are instances as recently as 2004 when long term rates braced for impact from an expected Fed hike only to fall when the Fed actually pulled the trigger. In that case, the Fed hike had the biggest impact on longer term rates **BEFORE** it actually happened. There's no question that much of 2015's general move higher in rates has happened for the same reasons.

Such **counterintuitive** conclusions only add to the recent paralysis. All we really know is that rates will probably be making bigger moves next week, but the direction is anyone's guess.

Economic/Housing Data Recap From the Past Week

Friday's jobs report was weak at face value, with payroll creation coming in much lower than expected. The rest of the report helped offset the headline though. Unemployment was down to 5.1, and it got there without the normal caveat of lower labor force participation. Wage growth was also stronger than expected—a sticking point for many labor market critics. Finally, the revisions to the previous 2 reports nearly offset the loss of payrolls in the current report.

Apart from that, data has been limited this week. **Fannie Mae unveiled a welcome update** to its National Housing Survey that will make the data much more accessible to the average reader. Black Knight examined the burgeoning "**tappable equity**" in the housing market, along with the fact that it's not yet being tapped. Corelogic released reports on both **Foreclosures** and **Distressed Sales**. The Mortgage Bankers Association noted a **sharp bounce** back in last week's mortgage application surge, and originators are gearing up for the implementation of **FHA guideline changes** that take effect next week.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Sep 07				
12:00AM	Labor Day			
Tuesday, Sep 08				
3:00PM	Jul Consumer credit (bl)	+19.10	18.50	20.74
Wednesday, Sep 09				
7:00AM	w/e Mortgage Refinance Index	1713.4		1902.4
7:00AM	w/e MBA Purchase Index	205.0		206.9
7:00AM	w/e Mortgage Market Index	430.8		459.5
Thursday, Sep 10				
8:30AM	w/e Continued jobless claims (ml)	2.260	2.257	2.257
8:30AM	w/e Jobless claims 4-wk avg (k)	275.75		275.50
8:30AM	w/e Initial Jobless Claims (k)	275	275	282
8:30AM	Aug Export prices mm (%)	-1.4	-0.3	-0.2
8:30AM	Aug Import prices mm (%)	-1.8	-1.6	-0.9
Tuesday, Sep 15				

Event Importance:

No Stars = Insignificant

Low

Moderate

Important

Very Important

Date	Event	Actual	Forecast	Prior
8:30AM	Sep NY Fed manufacturing	-14.67	-0.75	-14.92
8:30AM	Aug Retail sales mm (%)	+0.2	0.3	0.6
Wednesday, Sep 16				
8:30AM	Aug CPI mm, sa (%)	-0.1	0.0	0.1
8:30AM	Aug Core CPI mm, sa (%)	+0.1	0.1	0.1
8:30AM	Aug Core CPI index, sa	242.69		242.51
10:00AM	Sep NAHB housing market indx	62	61	61
4:00PM	Jul Foreign buying, T-bonds (bl)	-28.7		69.8
Thursday, Sep 17				
8:30AM	Aug Building permits: number (ml)	1.170	1.160	1.130
8:30AM	Aug Build permits: change mm (%)	+3.5		-15.5
8:30AM	Aug Housing starts number mm (ml)	1.126	1.170	1.206
10:00AM	Sep Philly Fed Business Index	-6.0	6.0	8.3
2:00PM	N/A FOMC rate decision (%)	0-0.25	0.125	0.125
Wednesday, Oct 07				
1:00PM	10-yr Note Auction (bl)	21		
Thursday, Oct 08				
1:00PM	30-Yr Bond Auction (bl)	13		

Service oriented, responsive, competitive rates and an in depth knowledge of todays mortgage market

After completing my degree in finance at the University of Connecticut, I started in the mortgage business right out of college in 2004. With 15+ years of experience and a primary objective of thoroughly explaining all available loan options to my clients with what is typically the largest investment in their lives, I strive to always make myself available. I constantly educate myself with respect to the mortgage industry and underwriting guidelines for FHA, VA, conventional and jumbo financing. I deliver on the expectations discussed up front and provide the service level my clients deserve from day one. I will remain in touch throughout the process and continue to follow up with you after closing. My goal is to wow you and turn you into clients for life. I want you to be so impressed that throughout and after the process you share my information with your friends, family, neighbors and co-workers who may value from my services.

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