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Don't Be Fooled By Fake News on Rates and Housing

It was a complex week in the world of mortgage rates and housing markets. Complexity often creates inconsistent news coverage. At best, most of the coverage fell short. At worst, some of it was downright wrong. Let's clear things up!

Last week's newsletter covered the **surge** to the highest interest rates in roughly 7 years. To be sure, this rising rate environment deserves attention. As seen in the following chart, it just surpassed the trough-to-peak move seen in 2012-2013. But whereas many media outlets were putting out dire headlines about the 7-year highs **THIS** week, rates actually staged quite a healthy recovery.

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	99.35	-0.16
MBS GNMA 5.0	99.91	-0.04
10 YR Treasury	3.9039	+0.0424
30 YR Treasury	4.1932	+0.0468

Pricing as of: 8/30 5:59PM EST

Recent Housing Data

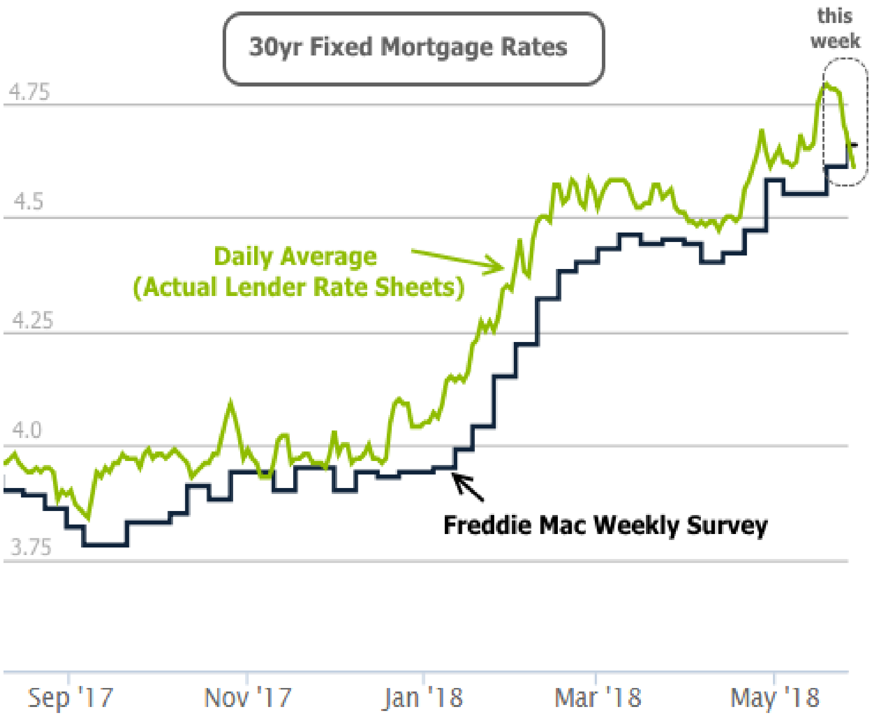
		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

What gives?! How could the chart above coexist with these headlines from the past 48 hours?

Mortgage rates march to fresh 7-year high -**Marketwatch**
Mortgage rates are Skyrocketing -**NASDAQ**
30-year mortgage rates post 7-year high -**Reuters**
Mortgage rates have been rising at a pace not seen in almost 50 years - **Washington Post**

The answer is simple. A **vast majority** of mortgage rate news is based on Freddie Mac's weekly survey. Over time, Freddie's numbers do a fine job of tracking long-term rate trends, but they can completely miss the mark when it comes to short-term volatility.

The problem is that the weekly survey mostly captures Monday and Tuesday's rate quotes. Last week, that meant Freddie was capturing the **lowest** rates. This week, Monday and Tuesday saw the **highest** rates. In other words, it was the worst possible timing for Freddie's survey. Fortunately, we can easily examine day-to-day changes (green line below) to see reality.



We can now agree mortgage rates and Treasury yields moved lower this week, no matter what the average news story says, **but why?** Here too, things are bit more complex than normal. Whereas rates often move in response to an important economic report or a policy update from the Federal Reserve, this week was really all about Italian politics.

You read that correctly! As unrelated as it may seem, political risk in Italy **directly** translated to this week's rate rally. If we explore some of the details, it actually makes a fair amount of sense.

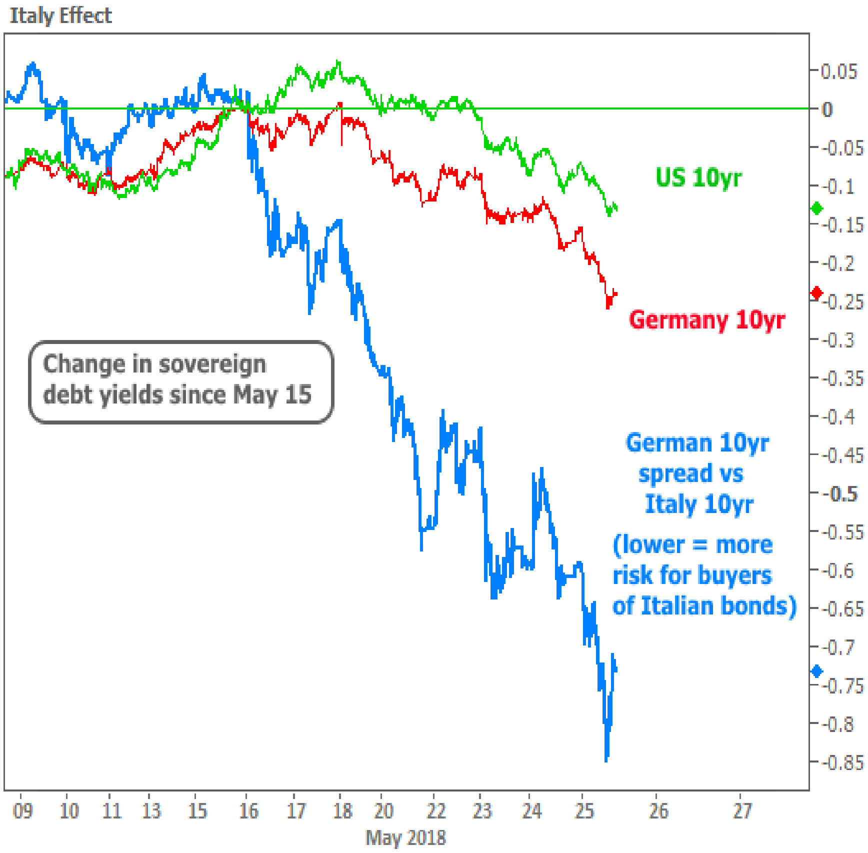
Europe is among the world's top 3 economies. Italy is the 3rd largest economy in the Euro area. Drama in Italy reverberates throughout the European economy. **More importantly**, if Italy were to exit the European Union (in similar fashion to Great Britain's "Brexit" in 2016), financial markets would have to account for a domino effect.

Why does this matter this week? It's actually mattered for a few months, ever since Italy's anti-establishment 5-Star Party staged an election upset. The EU wasn't immediately doomed, however, because 5-Star didn't win by enough to govern on its own. It needed to form a coalition with one of Italy's other political parties, and that didn't happen until just last week.

Rather than team up with a party that would promote a more moderate view, 5-Star joined with the only other party that wants Italy to leave the EU. Since then, financial markets have been **panicking** about an Italian version of Brexit.

While we don't know exactly what that might look like, investors can agree it increases both economic uncertainty and Italy's credit risk. The **obvious trade** is to sell Italian bonds and buy safer haven assets (such as the bonds of big, stable economies like Germany and the U.S.).

Excess demand for bonds pushes rates lower. As such, U.S. and German rates **fell** this week as Italy's rates **skyrocketed**. The following chart shows the spread between Germany and Italy (which moves lower as Italy's rates rise). Simply put, the lower the blue line, the more investors are worrying about Italy.

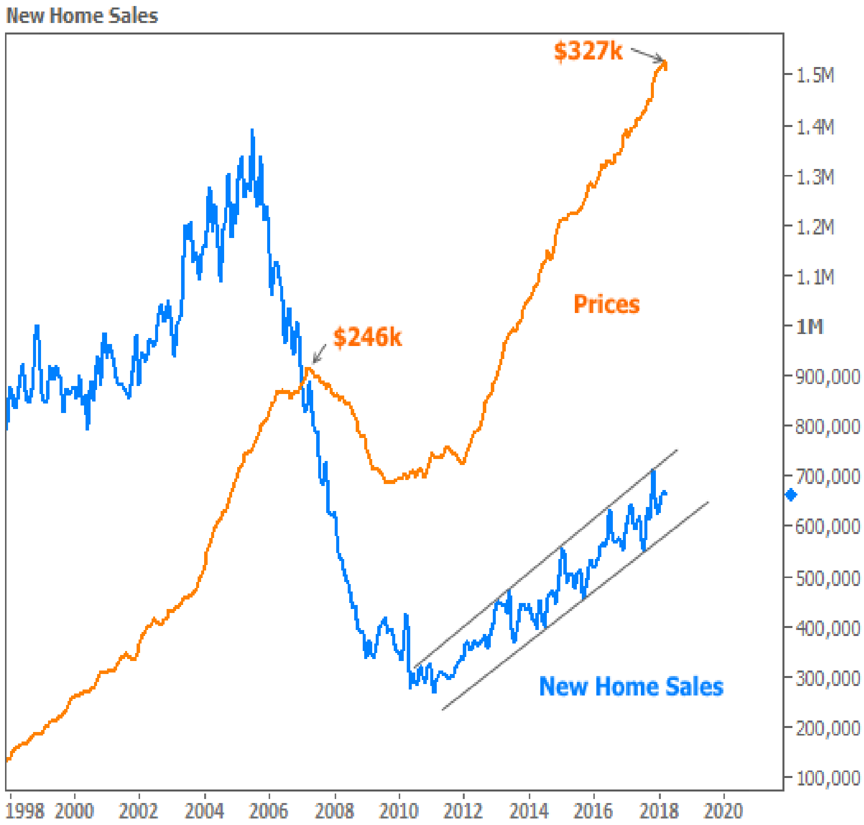


Though esoteric, these **details are important** in considering near-term risks for mortgage rates. While we can't yet know if the new Italian government will actually push Italy out of the EU, we can at least observe that this week's rate recovery is predicated on a highly uncertain, highly volatile situation.

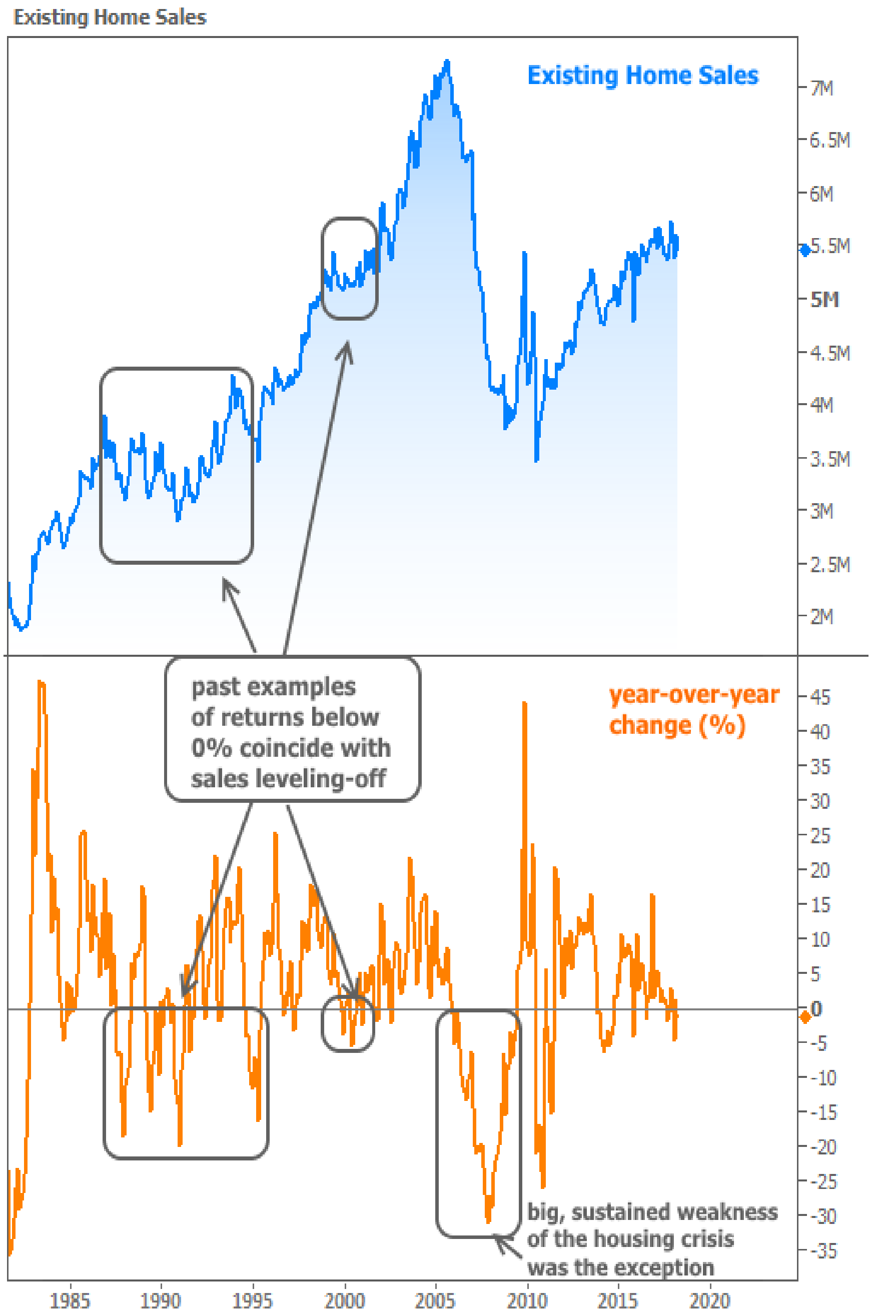
In other words, it's **not** as if we've seen a confirmed shift in economic data or Fed policy. Rates **could** continue lower from here, but that would require a fairly constant supply of European drama, all other things being equal. Moreover, the longer-term factors that have been pushing rates higher are still there (this stuff). As such, it makes sense to **work quickly to satisfy loan approval conditions** so you can be ready to lock.

Housing-Related Data

This week's home sales data was less than stellar. News headlines were understandably gloomy, but they certainly don't capture the bigger picture, nor do they convey the subtleties that underlie the top-line sales figures. For instance, it's true that New Home Sales fell 1.5%, but **do you really care** if they continue to operate in the linear trend seen in the following chart?



Existing Home Sales were **more vulnerable** to criticism, with a 2.5% decline in April and a 1.4% decline vs April 2017. Whether or not that's a bad thing is open to debate. History shows numerous examples of year-over-year declines. That's only coincided with a major downturn in sales **one time** in more than 40 years.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, May 23				
7:00AM	w/e Mortgage Refinance Index	1018.1		1057.1
7:00AM	w/e MBA Purchase Index	247.4		252.4
10:00AM	Apr New home sales chg mm (%)	-1.5	-2.0	4.0
10:00AM	Apr New home sales-units mm (ml)	0.662	0.679	0.694

Event Importance:

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

Date	Event	Actual	Forecast	Prior
1:00PM	5-Yr Note Auction (bl)	36		
2:00PM	FOMC Minutes			
Thursday, May 24				
8:30AM	w/e Jobless Claims (k)	234	225	222
9:00AM	Mar Monthly Home Price mm (%)	0.1		0.6
9:00AM	Mar Monthly Home Price yy (%)	6.7		7.2
10:00AM	Apr Existing home sales (ml)	5.46	5.57	5.60
10:00AM	Apr Exist. home sales % chg (%)	-2.5	-0.2	1.1
1:00PM	7-Yr Note Auction (bl)	30		
Friday, May 25				
8:30AM	Apr Durable goods (%)	-1.7	-1.4	2.6
8:30AM	Apr Nondefense ex-air (%)	1.0	0.7	-0.4
10:00AM	May U Mich Sentiment Final (ip)	98.0	98.8	98.8
Monday, May 28				
12:00AM	Memorial Day			
Tuesday, May 29				
10:00AM	May Consumer confidence	128.0	128.0	128.7
Wednesday, May 30				
8:15AM	May ADP National Employment (k)	178	190	204
8:30AM	Q1 GDP Prelim (%)	2.2	2.3	2.3
Thursday, May 31				
8:30AM	Apr Personal Income (%)	0.3	0.3	0.3
8:30AM	Apr Consumer Spending (Consumption) (%)	0.6	0.400	0.4
8:30AM	Apr Core PCE (y/y) (%)	1.8	1.800	1.9
8:30AM	w/e Jobless Claims (k)	221	225	234
9:45AM	May Chicago PMI	62.7	58.0	57.6
10:00AM	Apr Pending Sales Index	106.4		107.6
Friday, Jun 01				
8:30AM	May Non-farm payrolls (k)	223	188	164
8:30AM	May Unemployment rate mm (%)	3.8	3.9	3.9
10:00AM	May ISM Manufacturing PMI	58.7	58.1	57.3
10:00AM	May ISM Mfg Prices Paid	79.5	78.2	79.3
10:00AM	Apr Construction spending (%)	1.8	0.8	-1.7

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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