US Housing Market Weekly

September 14, 2018

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Rates Paying Price For Sunny August

Last week, we talked about the unintended consequences of a strong economy--namely, that better economic data tends to push rates higher. This week, it was more of the same. In addition to economic data that generally argued for higher rates, markets also had to deal with updates from central bankers as well as a big glut of bond issuance.

Why do we care what central bankers say and what does "bond issuance" mean?

I'll start with central bankers--the people who set policies intended to maintain balance in the financial system. Many view them as having some sort of agenda, but their only goal is to smooth things out. They're not perfect, however, so when they make mistakes, critics call them out on it, thus fueling the perception of 'agenda.'

One of the most important central bank policies at the moment is the ongoing bond buying on the part of the European Central Bank (ECB)--something they've already said will be winding down next year. Given the trade-related drama and a few geopolitical concerns that have come up since the last ECB meeting, some investors thought the ECB might be feeling more cautious. But the central bank didn't express much concern for unexpected headwinds, nor did they suggest delaying their plans to wind down bond purchases.

That was strike two for rates this week.

You said strike two... What was strike one?

Strike one had to do with that big glut of bond issuance. That may sound esoteric, but it's pretty simple. Governments and corporations issue debt (aka "borrow money") to pay for "stuff." Even when corporations have cash to pay for stuff, it can still make sense to finance it.

When big entities borrow big money, they sell big bonds to investors. Bonds are essentially loans and investors are essentially lenders. The more bonds that hit the market, the lower prices must be in order to capture investor attention. And a lower price on a bond means a higher rate of return. In other words, **more bonds for sale = higher rates**.

This week not only brought a full slate of bond issuance from the US Treasury, but also an uncommonly large supply of bonds from corporations.

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%

The corporate bonds compete for investor attention, thus putting upward pressure on rates in general.

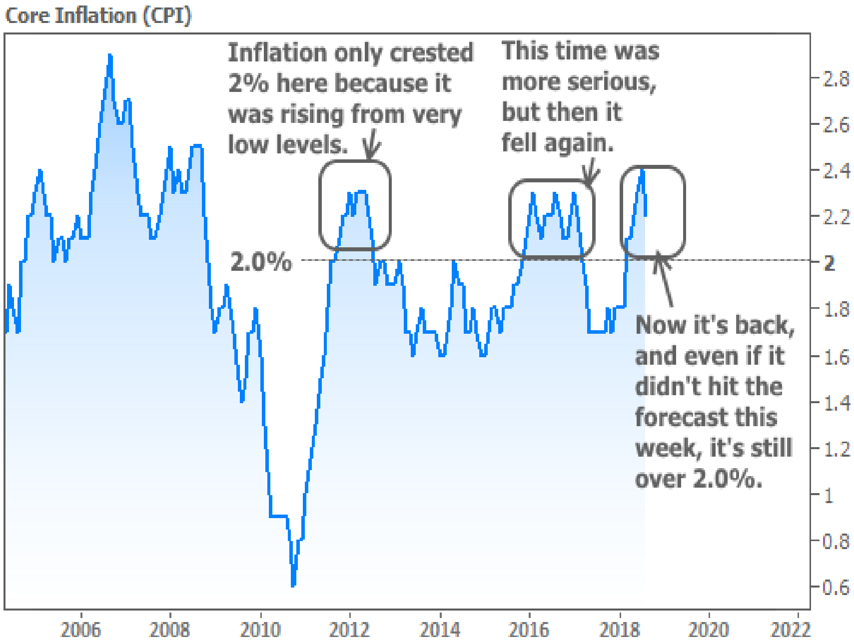
Was there a strike three?

Strike three is really an ongoing phenomenon.

This is going to be a longer answer, isn't it?

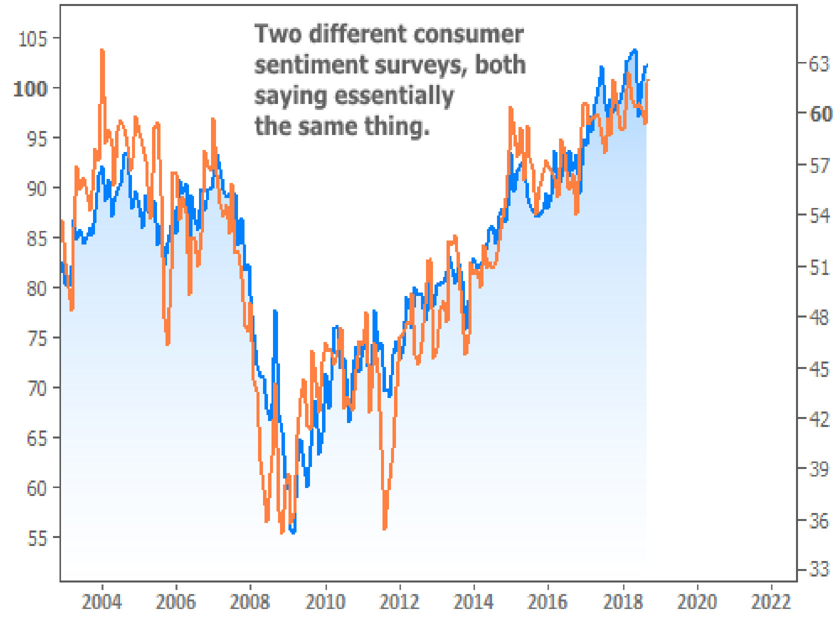
I'll try to keep it as simple as possible. The ongoing phenomenon goes back to that notion of a stronger economy doing all sorts of things to push interest rates higher.

Last week's wage growth raised the risk that this week's inflation data would be stronger. In fact, inflation came in **lower** than expected. This actually provided a nice temporary improvement for rates on Thursday. But by remaining over 2% at the core level (a less volatile and more widely-followed metric) the inflation numbers still fit a narrative that is bad for rates overall. Core inflation over 2% makes it a no-brainer for the Fed to continue hiking rates.

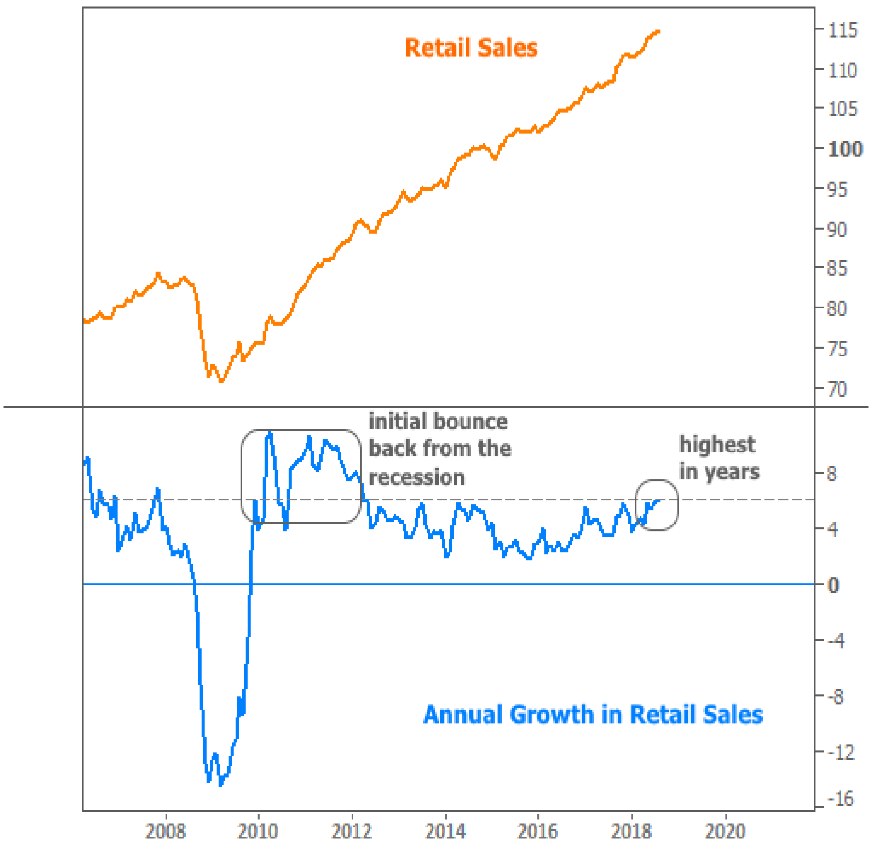


Some of the economic data (like consumer sentiment), **far exceeded forecasts** while other data (like Retail Sales) came up a bit short. Forecasts aside, both sets of data suggest August was just another month with the overall economy firing on all cylinders.

Consumer Sentiment

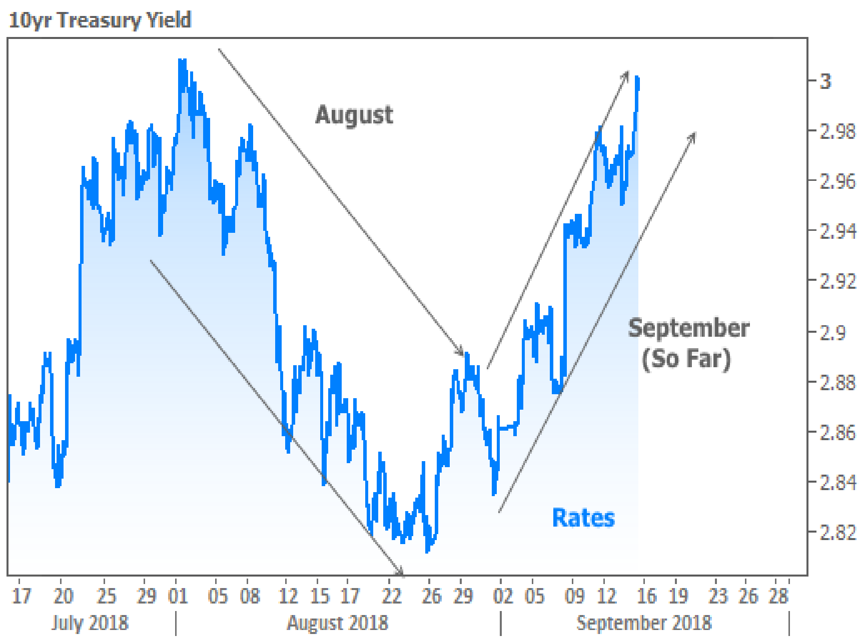


Retail Sales



So, strong economy in August = higher rates in Sept?

Yes...



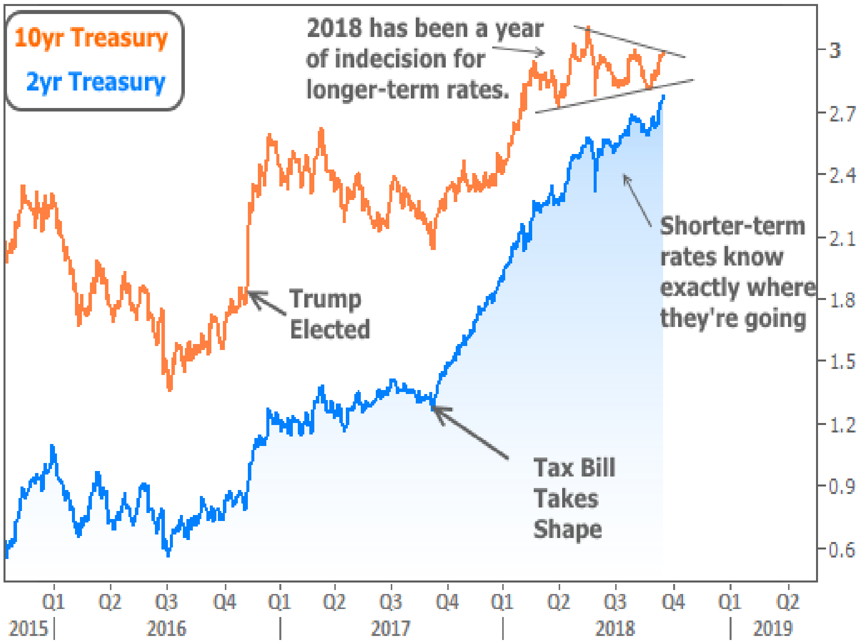
But it's **not just August**, and it's **not just the economy**. Central bank tightening (raising rates/buying fewer bonds) and increased government borrowing are simultaneously putting pervasive, logical, upward pressure on rates. And they have been for several years now.

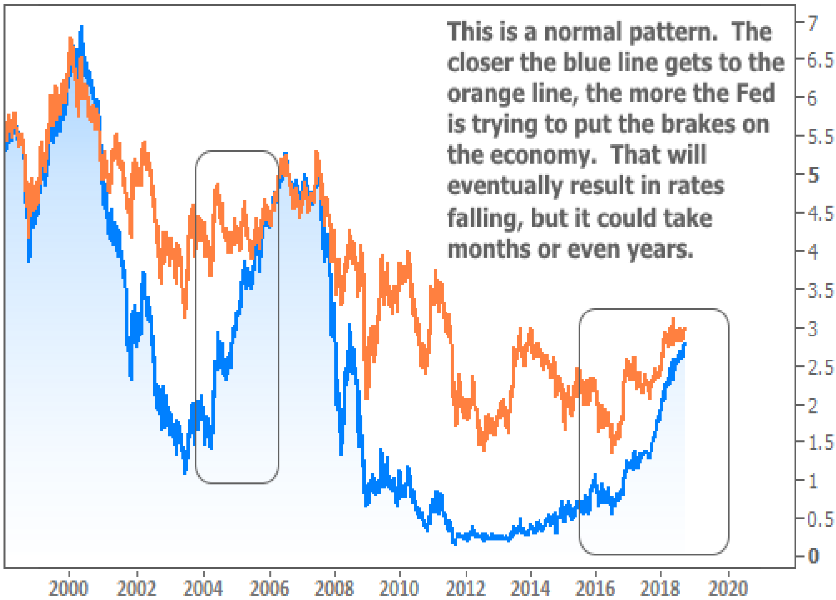
By 2016, the economy had long since been healing from the Great Recession, even if the pace was a bit slower than expected. When Trump was elected, investors figured the new administration would push for inflationary policies (tax reform being chief among these). Those inflationary policies also stood the chance to promote even stronger economic growth. As we just discussed, all that stuff is bad for rates, and that's a key reason longer-term rates rose more quickly just after the election.

Early 2017 brought doubts about the administration's ability to forward its agenda. Longer-term rates recovered while shorter-term rates kept moving slightly higher due to their stronger connection with the Fed Funds Rate (the Fed made it clear that they would gradually be hiking). September 2017 brought the tax bill **back** into focus as a strong probability. Rates reacted accordingly.

Shorter-term rates shot up most readily because the administration said it would borrow more short-term debt to pay for any revenue shortfall from the tax bill (more supply = higher rates). Longer-term rates rose too, but maintained some skepticism about the long-term effects of the administration's policies as well as global economic stability. This helped 10yr yields stay in a holding pattern--for the most part--in 2018, even as 2yr yields continue higher.

Longer vs Shorter Term Rates





Weeks like this force longer-term rates to make slight adjustments to their holding pattern. To whatever extent economic data can continue improving, those adjustments could continue pushing rates even higher. Eventually though--and by design--rising short-term rates will increasingly cool off economic growth prospects. The economic cycle will shift--either gradually or due to an unforeseen crash--and **rates will enter a new downtrend**. Expert opinion varies on how long we'll have to wait for that shift. September 2018 is probably out though!

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Recent Economic Data

Event Importance:

No Stars = Insignificant

☆ Low

Date	Event	Actual	Forecast	Prior
Tuesday, Sep 11				
10:00AM	Jul Wholesale inventories mm (%)	0.6	0.7	0.7
1:00PM	3-Yr Note Auction (bl)	35		
Wednesday, Sep 12				
7:00AM	w/e MBA Purchase Index	233.5		231.4
7:00AM	w/e Mortgage Refinance Index	884.3		940.0
8:30AM	Aug Producer Prices (%)	-0.1	0.2	0.0
8:30AM	Aug Core Producer Prices YY (%)	+2.3	2.7	2.7
Thursday, Sep 13				
8:30AM	Aug CPI mm, sa (%)	+0.2	0.3	0.2
8:30AM	Aug Core CPI Year/Year (%)	+2.2	2.4	2.4
8:30AM	w/e Jobless Claims (k)	204	210	203
Friday, Sep 14				
8:30AM	Aug Import prices mm (%)	-0.6	-0.2	0.0
8:30AM	Aug Export prices mm (%)	-0.1	0.0	-0.5
8:30AM	Aug Retail Sales (%)	0.1	0.4	0.5
9:15AM	Aug Industrial Production (%)	0.4	0.3	0.1
9:15AM	Aug Capacity Utilization (%)	78.1	78.2	78.1
10:00AM	Sep Consumer Sentiment	100.8	96.6	96.2
10:00AM	Sep 1yr Inflation Outlook (%)	2.8		3.0
10:00AM	Sep 5yr Inflation Outlook (%)	2.4		2.6
10:00AM	Jul Business Inventories (%)	0.6	0.6	0.1
Tuesday, Sep 18				
10:00AM	Sep NAHB housing market indx	67	66	67
Wednesday, Sep 19				
7:00AM	w/e MBA Purchase Index	234.2		233.5
7:00AM	w/e Mortgage Refinance Index	917.1		884.3
8:30AM	Aug Building permits: number (ml)	1.229	1.310	1.303
8:30AM	Aug Housing starts number mm (ml)	1.282	1.235	1.168
8:30AM	Aug House starts mm: change (%)	9.2		0.9
8:30AM	Aug Build permits: change mm (%)	-5.7		0.9
Thursday, Sep 20				
8:30AM	Sep Philly Fed Business Index	22.9	17.0	11.9
8:30AM	w/e Jobless Claims (k)	201	210	204
10:00AM	Aug Existing home sales (ml)	5.34	5.35	5.34
10:00AM	Aug Exist. home sales % chg (%)	0.0	0.3	-0.7
10:00AM	Aug Leading index chg mm (%)	0.4	0.5	0.6
Wednesday, Oct 10				
1:00PM	10-yr Note Auction (bl)	23		

Moderate
Important
Very Important

Date	Event	Actual	Forecast	Prior
Thursday, Oct 11				
1:00PM	30-Yr Bond Auction (bl)	15		

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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