



The Arizona Loan Baron

Timothy Baron, VP Senior Loan Officer Loan Baron, V.I.P. Mortgage, Inc.

Timothy Baron NMLS #184671 V.I.P. Mortgage, Inc. does 6390 E Tanque Verde Rd. Suite #200 Tucson, AZ 85715

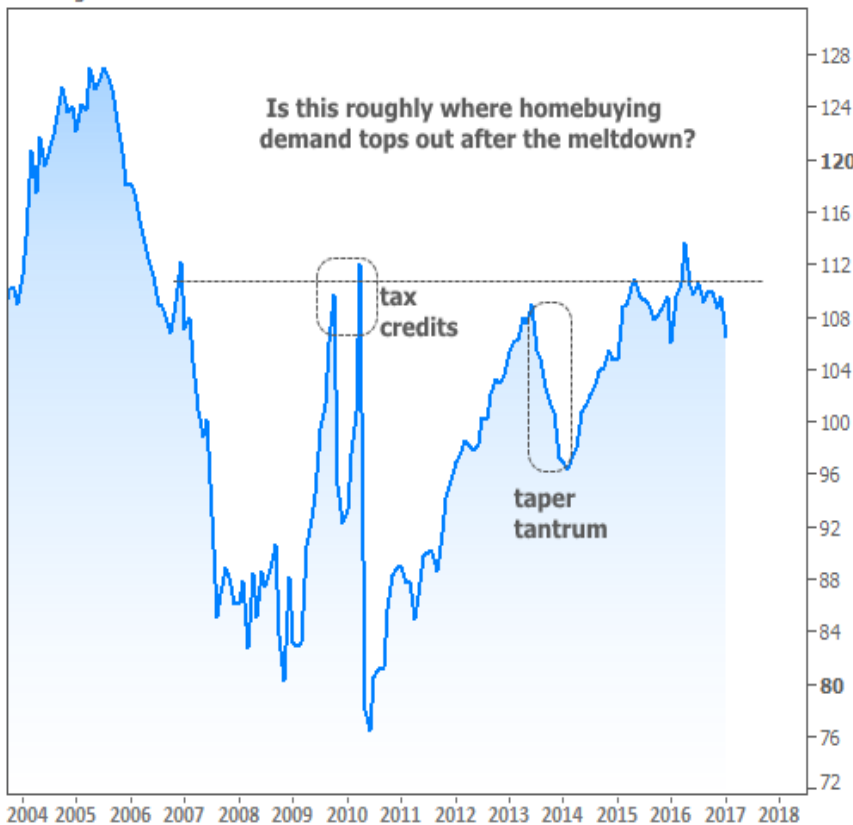
Office: 520-275-5956
 Mobile: 520-275-5956
timothybaron@vipmtginc.com
[View My Website](#)

Housing Implications of Fed's March Rate Hike

Both for the housing market and interest rates, this week stood in stark contrast to the previous week. Whereas rates had been at the lower edge of their recent range, they're now near the top. Whereas last week's housing data showed great promise, one of this week's reports may raise serious doubts.

The report in question is the National Association of Realtors (NAR) Pending Home Sales Index. This is a bit of an advance indicator when compared to last week's New and Existing Home Sales data. Contracts are counted in the pending sales figures, meaning that it tends to lead the other reports by about a month. In other words, the following chart is more timely than last week's. Unfortunately, it doesn't look nearly as upbeat.

Pending Home Sales



National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.08%	-0.05	0.00
15 Yr. Fixed	6.45%	-0.02	0.00
30 Yr. FHA	6.55%	-0.05	0.00
30 Yr. Jumbo	7.25%	-0.04	0.00
5/1 ARM	7.07%	-0.03	0.00

Freddie Mac

30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	0.00

Rates as of: 7/3

Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.39	+0.19
MBS GNMA 6.0	100.53	+0.14
10 YR Treasury	4.3602	-0.0724
30 YR Treasury	4.5297	-0.0761

Pricing as of: 7/3 5:59PM EST

Recent Housing Data

	Value	Change
Mortgage Apps	Jun 12 208.5	+15.58%
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%

As the chart suggests, a case could be made that the Pending Homes Index tends to top out in the vicinity of 110.0 in the post-meltdown era. If we consider that the levels of demand achieved during the housing boom were potentially unhealthy, it's only natural to ask if the recent highs are about as high as we're going to go. NAR doesn't quite see it that way. Instead, demand is outstanding, according to chief economist Lawrence Yun, and it's the **"significant shortage of listings"** that's holding housing back.

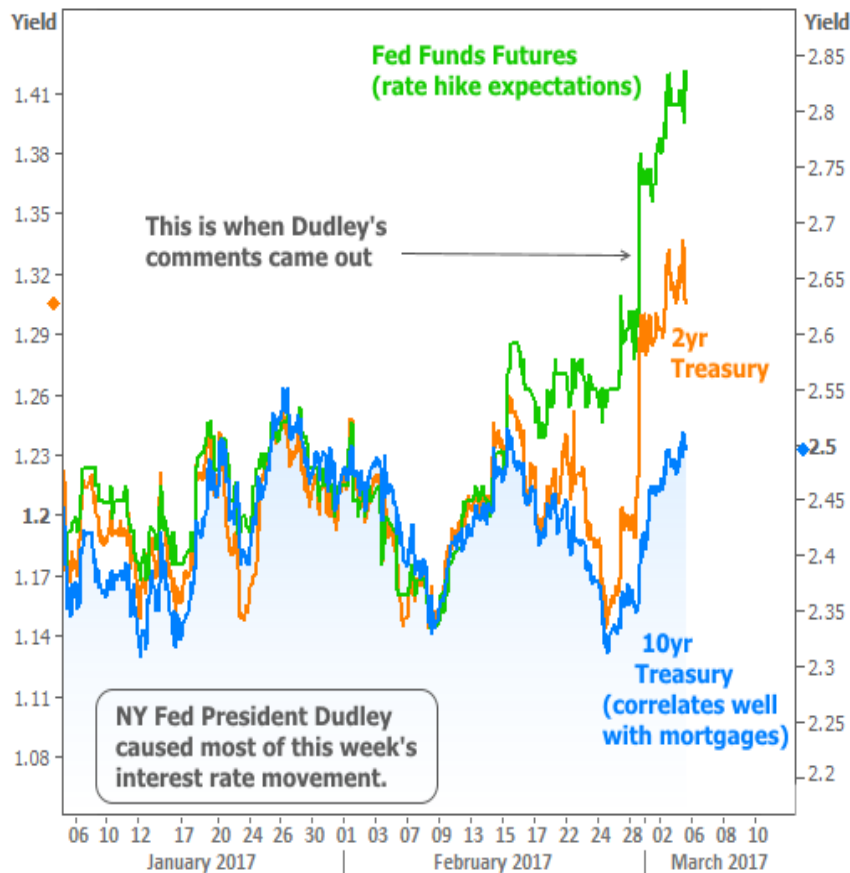
Yun also points out that **affordability is an issue**. While high demand is hurting affordability by driving prices higher, the recent mortgage rate landscape is making it harder for prospective buyers to afford the payments. Eventually, some combination of these increasing costs will noticeably stem the tide of demand, but we're not there yet.

The Fed did their part to drive rates higher this week. In fact, by Friday, Fed Vice Chair Stanley Fischer flat-out **admitted** that recent Fed speeches suggest a **conscious effort** to convince markets that a Fed rate hike is likely in March.

If there was one event that exemplified those efforts, it was a series of comments from NY Fed President Bill Dudley on Tuesday afternoon. Dudley's words are worth more than most any Fed member (apart from Yellen and Fischer). He's considered one of the "big three" when it comes to guiding policy decisions.

We don't hear from Dudley as much as several other Fed speakers, and the last time we did, he didn't speak assumptively about hiking rates. Tuesday was a **different story**. Dudley said the case for tightening monetary policy is now a lot more compelling and that a rate hike is likely in the "relatively near future."

Here's how markets reacted to that, both in terms of Treasury yields and Fed Funds Futures (financial instruments that track Fed rate hike expectations).

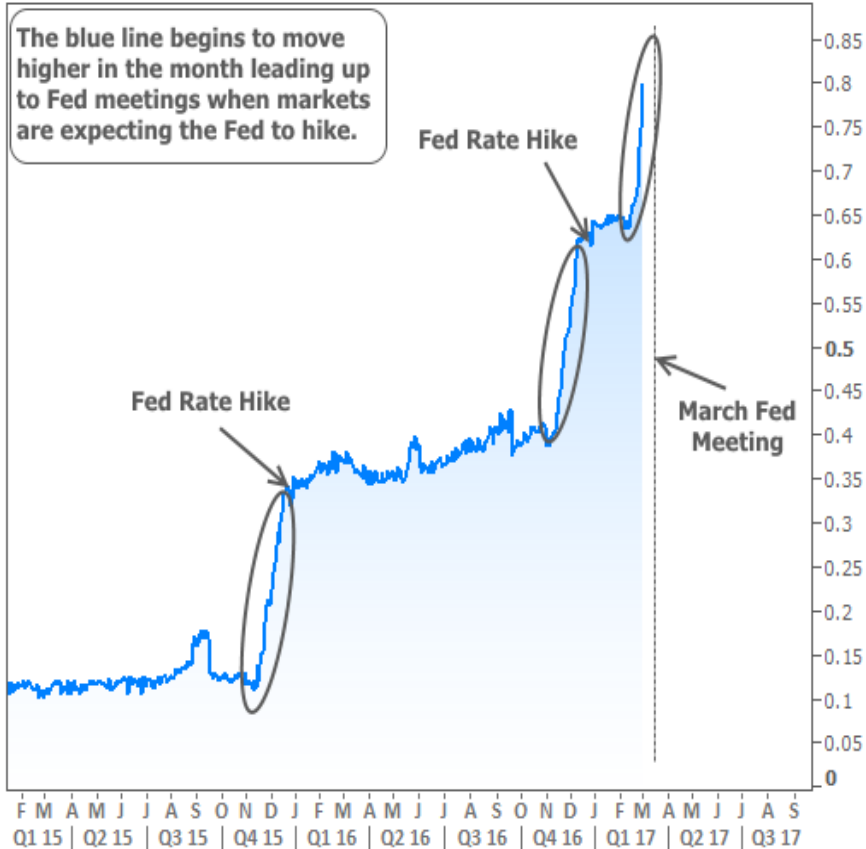


With that, the week was **essentially over** for rates. Their goose was cooked! Rates drifted moderately higher on each of the next 3 days. So potent were Dudley's comments that bond markets **didn't** even react on Friday when Yellen **reiterated** the likelihood of a March rate hike.

So is this the **real deal**? Or is the green line in the chart above akin to a long-shot sports bet? We can observe just how real the deal is by looking at a more sober and reliable indicator of Fed rate hike potential.

The next chart shows overnight indexed swaps (OIS). These essentially track big banks' expectations for overnight interest rates. The difference is that, unlike Fed Funds Futures, the OIS market **isn't speculative**. It's based on the rate of return that banks are actually willing to pay and receive on billions of dollars a day. When OIS starts moving higher, the "smart money" is saying a Fed rate hike is coming up soon.

Overnight Indexed Swaps (Fed Rate Hike Expectations)



This really **leaves no doubt**. OIS is on the same exact trajectory as it was in the month leading up to the last 2 hikes. It **wouldn't** be possible for financial markets to convey any higher probability at the moment and it would take some sort of massive, unforeseen shock for that to change.

The **nice thing** about such a high level of certainty is that it means there's not much about a March rate hike that is going to surprise the bond market (and thus rates). The biggest wild card will be the updated economic projections from Fed members. In fact, this is what caused the rate volatility after December's hike (after all, the chart above reminds us that the hike, itself, was obvious).

Whether or not that means rates will continue in the existing range remains to be seen. They've done a good job of that so far--especially in light of surge in stocks over the past few weeks.



Some market participants think bond traders might be **waiting to capitalize** on a much-feared stock correction. In that sense, bonds could indeed benefit from money flooding out of the stock market. Bonds wouldn't be the exclusive beneficiary of that money, but past examples suggest it would be more than enough to keep rates under their recent ceiling.

Next week begins the Fed's "blackout period" (where they abstain from public comment on monetary policy). That means we won't see any more Fed-induced rate volatility and can instead focus on economic data and other scheduled events. Chief among these will be **Friday's Nonfarm Payrolls** data (aka "NFP," or simply, the "jobs report"), which is coming out a week later than normal due to the shorter calendar of business days in February.

Subscribe to my newsletter online at: <http://mortgagenewsletter.net/timothybaron>

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Feb 27				
8:30AM	Jan Durable goods (%)	+1.8	1.8	-0.5
Tuesday, Feb 28				
8:30AM	Q4 GDP Prelim (%)	+1.9	2.1	1.9
9:00AM	Dec CaseShiller 20 yy (%)	+5.6	5.3	5.3
9:00AM	Dec CaseShiller 20 mm SA (%)	+0.9	0.7	0.9
9:45AM	Feb Chicago PMI	57.4	53.0	50.3
10:00AM	Feb Consumer confidence	114.8	111.0	111.8
Wednesday, Mar 01				

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
8:30AM	Jan Consumption, adjusted mm (%)	+0.2	0.3	0.5
8:30AM	Jan Personal income mm (%)	+0.4	0.3	0.3
8:30AM	Jan Core PCE price index yy (%)	+1.7		1.7
10:00AM	Feb ISM Manufacturing PMI	57.7	56.0	56.0
10:00AM	Jan Construction spending (%)	-1.0	0.6	-0.2
Thursday, Mar 02				
8:30AM	w/e Initial Jobless Claims (k)	223	236	244
Friday, Mar 03				
10:00AM	Feb ISM N-Mfg PMI	57.6	56.5	56.5
12:15PM	Fed's Powell			
12:30PM	Fed's Fischer			
1:00PM	Yellen Speech			
Tuesday, Mar 07				
8:30AM	Jan International trade mm \$ (bl)	-48.5	-48.5	-44.3
1:00PM	3-Yr Note Auction (bl)	24		
3:00PM	Jan Consumer credit (bl)	+8.79	17.10	14.16
Wednesday, Mar 08				
7:00AM	w/e Mortgage Market Index	405.7		392.9
8:15AM	Feb ADP National Employment (k)	298.0	190	246
8:30AM	Q4 Productivity Revised (%)	+1.3	1.5	1.3
8:30AM	Q4 Labor Costs Revised (%)	+1.7	1.6	1.7
10:00AM	Jan Wholesale sales mm (%)	-0.1	0.5	2.6
10:00AM	Jan Wholesale inventories mm (%)	-0.2	-0.1	-0.1
Thursday, Mar 09				
8:30AM	Feb Import prices mm (%)	+0.2	0.1	0.4
8:30AM	Feb Export prices mm (%)	+0.3	0.2	0.1
Friday, Mar 10				
12:00AM	Roll Date - Fannie Mae 30YR, Freddie Mac 30YR			
8:30AM	Feb Non-farm payrolls (k)	+235	190	227
8:30AM	Feb Private Payrolls (k)	+227	193	237
8:30AM	Feb Unemployment rate mm (%)	4.7	4.7	4.8
Tuesday, Apr 11				
1:00PM	10-yr Note Auction (bl)	20		
Wednesday, Apr 12				
1:00PM	30-Yr Bond Auction (bl)	12		

The Arizona Loan Baron

The Arizona Loan Baron is at your service!

I would appreciate the opportunity to share with you my extensive mortgage lending experience. My client focused approach has allowed me to build long lasting relationships and partnerships throughout Arizona. I know this market. I live here and work here. Please allow me the opportunity to be your mortgage lending partner.

The Arizona Loan Baron

