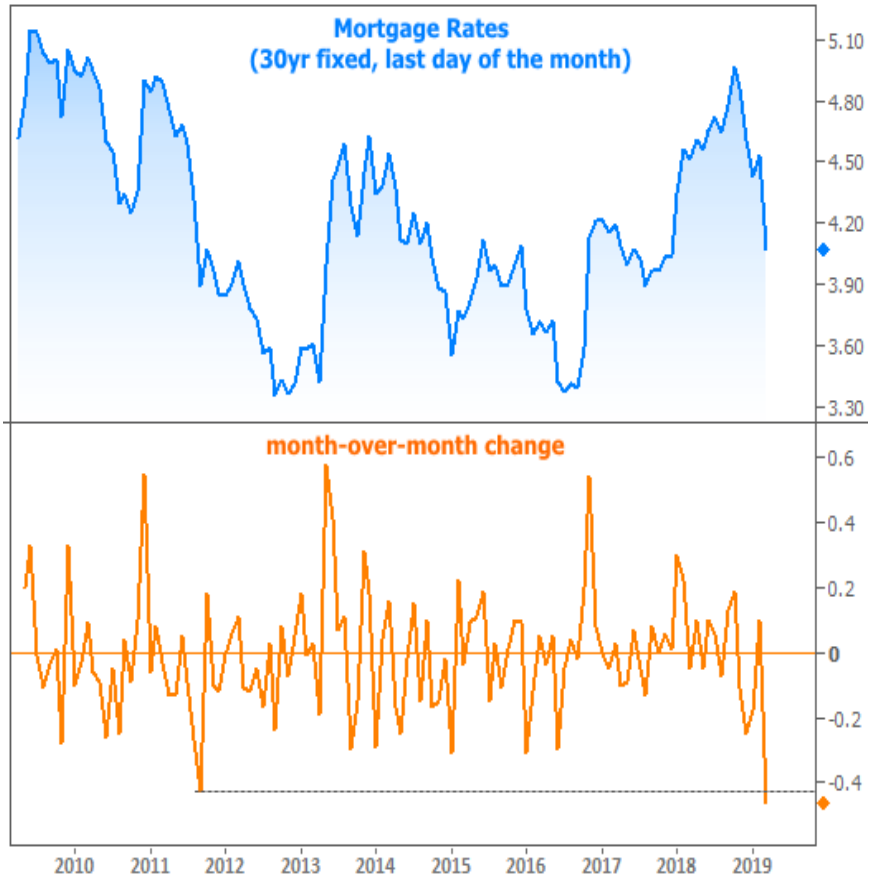


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# Best Month in a Decade For Mortgage Rates!

Since February 28th, the average mortgage rate quote for the average lender dropped by roughly half a percentage point. That makes March 2019 the **best month for rates** since the Fed first announced quantitative easing (the bond buying program that targeted mortgage rates) in late 2008.




It's no small coincidence that Fed bond buying was responsible for the big move in 2008 (and 2011 for that matter). I've not been shy about pointing out that last week's Fed decision was functionally equivalent to announcing **another bond buying program**. Such programs are rising tides that lift all boats. Case in point: stocks and rates improved simultaneously (seen as the orange and blue lines moving apart on the following chart) when the Fed first hinted at the change on January 30th. Last week brought more of the same although the benefits were mostly reserved for rates.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.27% | 0.00 | 0.00 |
| 15YR Fixed | 6.92% | 0.00 | 0.00 |
| 30YR FHA | 6.91% | +0.01 | 0.00 |
| 30YR Jumbo | 7.52% | -0.03 | 0.00 |
| 7/6 SOFR | 6.70% | -0.08 | 0.00 |
| 30YR VA | 6.92% | +0.01 | 0.00 |

Rates as of: 11/2

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.86 | +0.05 |
| 10 YR Treasury | 4.9048 | -0.0251 |
| 30 YR Treasury | 5.2895 | -0.0187 |

Pricing as of: 11/2 5:59PM EST

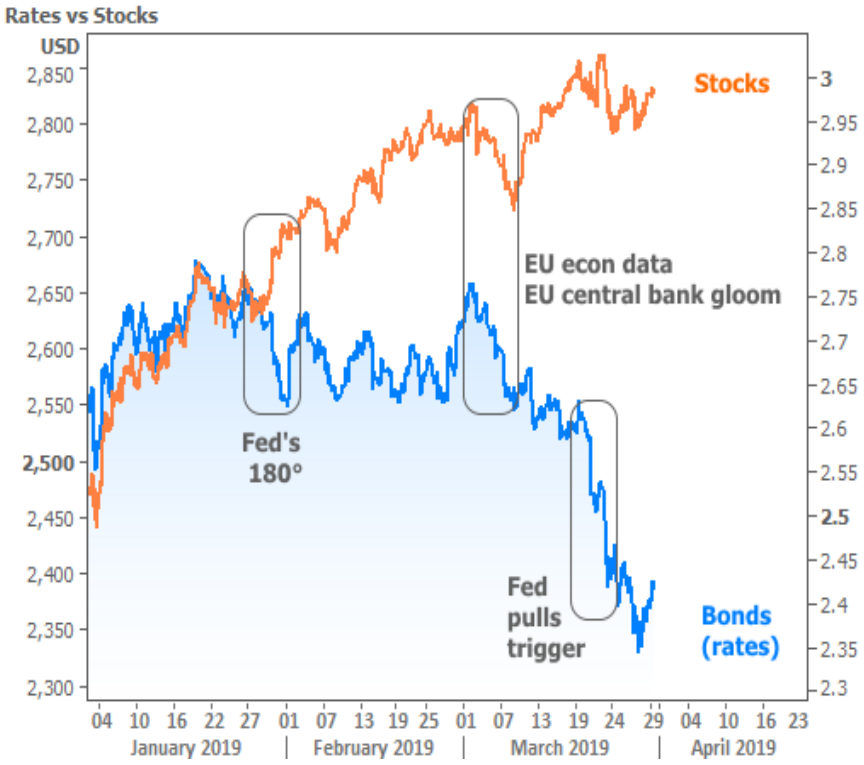
## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 21 | 195 | +3.39% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Aug | 71.2 | 0% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Oct | 29 | -9.38% |

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But that was last week's news, and indeed, most of the bond market movement responsible for the drop in rates occurred last week. Since then, things have evened out a bit for both stocks and bonds.



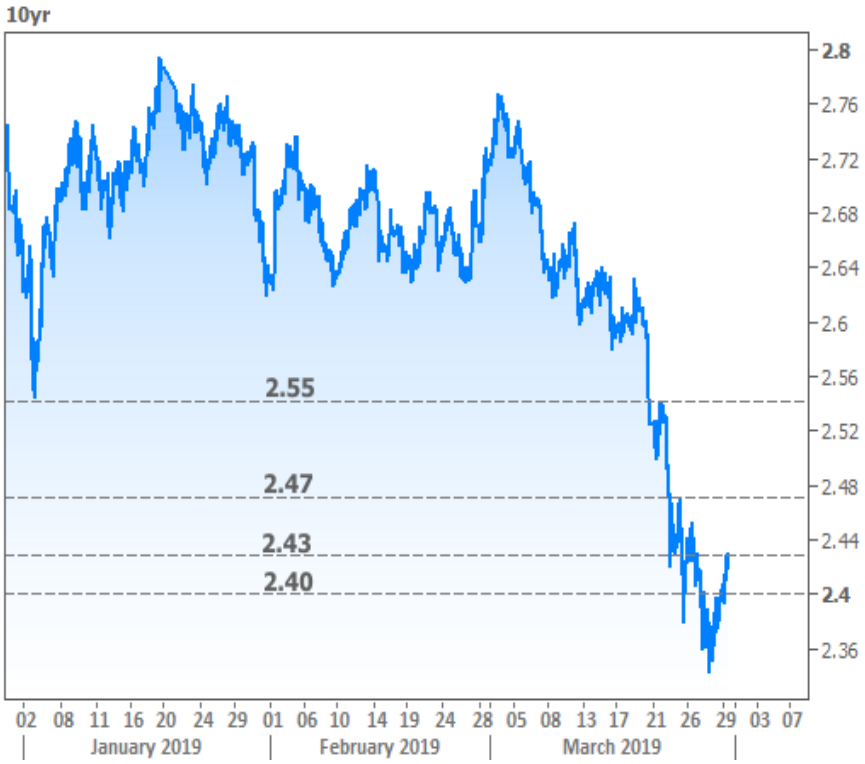

The Fed news has largely been priced-in and markets are turning their attention to other indicators. Economic data will be increasingly important as it will ultimately decide if the Fed is **justified** in its friendly policy shift. Reason being: the Fed cited growth concerns last week, and economic data is all about measuring growth!

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As markets wait to see what upcoming economic reports suggest, there are **several important ceilings** and inflection points we can watch in rates. It's easier to do this with 10yr Treasury yields, even if our main concern is mortgage rates. In 10yr terms, rates have convincingly broken below 2.55% and 2.47%. They're now fighting to break under 2.40%.

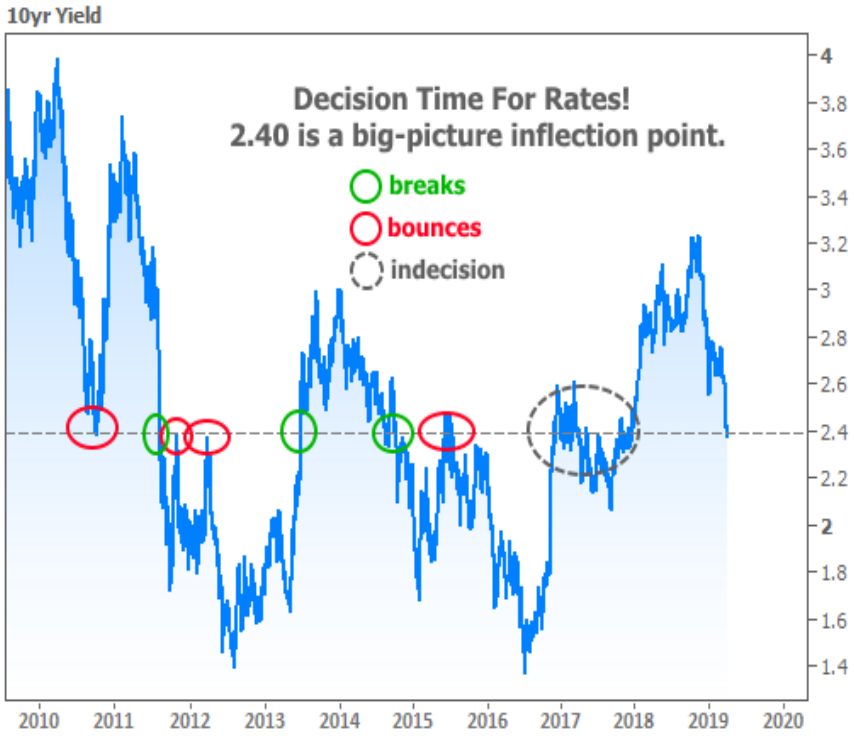



Why should we care if 10yr yields can stay near or under 2.40%? It could turn out to be nothing this time around, but past precedent suggests 2.40% as an important inflection point (meaning rates have **almost always bounced** there, or moved through forcefully). The only time they came close to lingering was in 2017, but even then, there was more of the same "inflection point behavior" on a smaller scale.

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More simply put, assuming the precedent holds, if rates can break below 2.40%, they **should keep moving lower** (as they did in 2011 and 2014). If they bounce, it's not the end of the world. A bounce could actually make the subsequent move more sustainable as long as they stay under 2.55%.

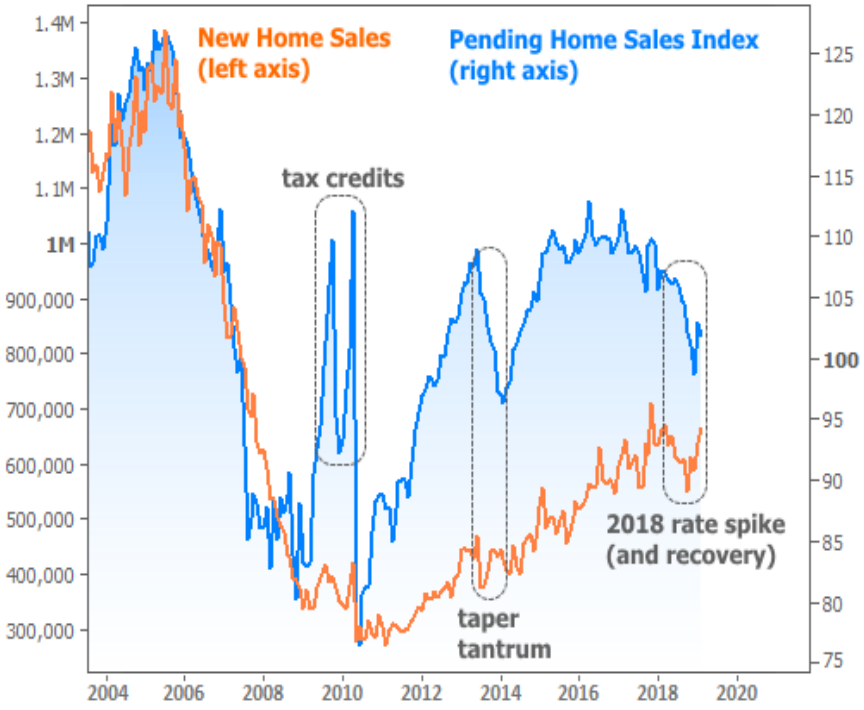
**Why should we care** if rates move lower? Do we even need to ask? Rates are certainly not the only factor driving home sales and prices, but they are a huge factor. Any time homebuying is made significantly more affordable (either by lower prices, lower rates, or even tax credits), the market responds.

Pending and New Home Sales both reported this week, and both continued to show **resilience** after the 2018 slump. A big rate spike was a key ingredient in that slump, and the big drop in rates is helping reverse the home sales trends (as we discussed 6 weeks ago).

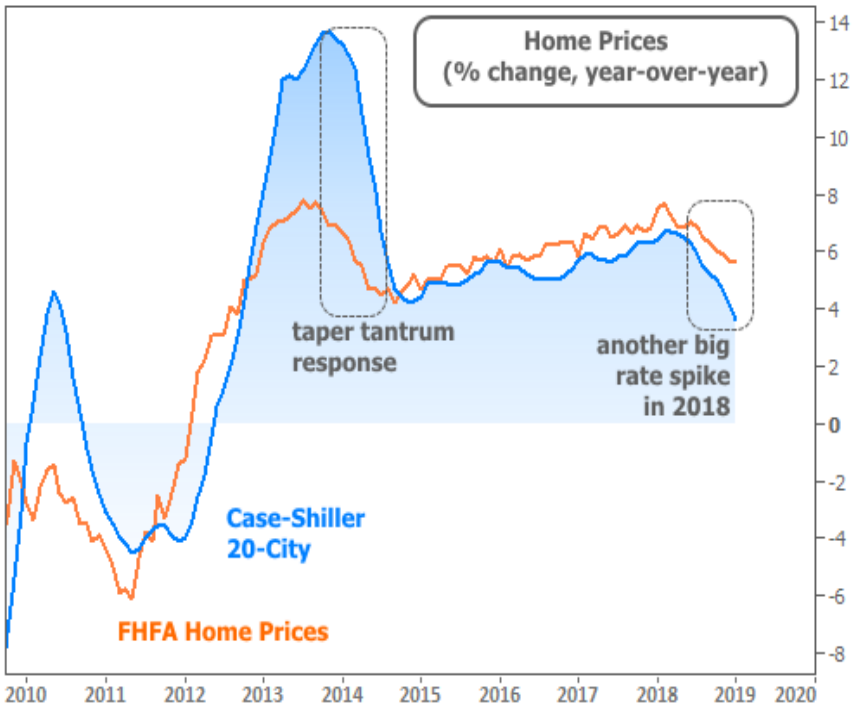
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Elsewhere in the housing data sphere, home price reports, which run a month behind the sales reports, are giving **mixed signals**. Case-Shiller data indicates slower price growth in January while FHFA's price index increased 0.6% compared to December's 0.3% gain. This **isn't** necessarily troubling because prices tend to be slower to respond to changes in interest rates. In any event, both indices continue to operate safely in positive territory.

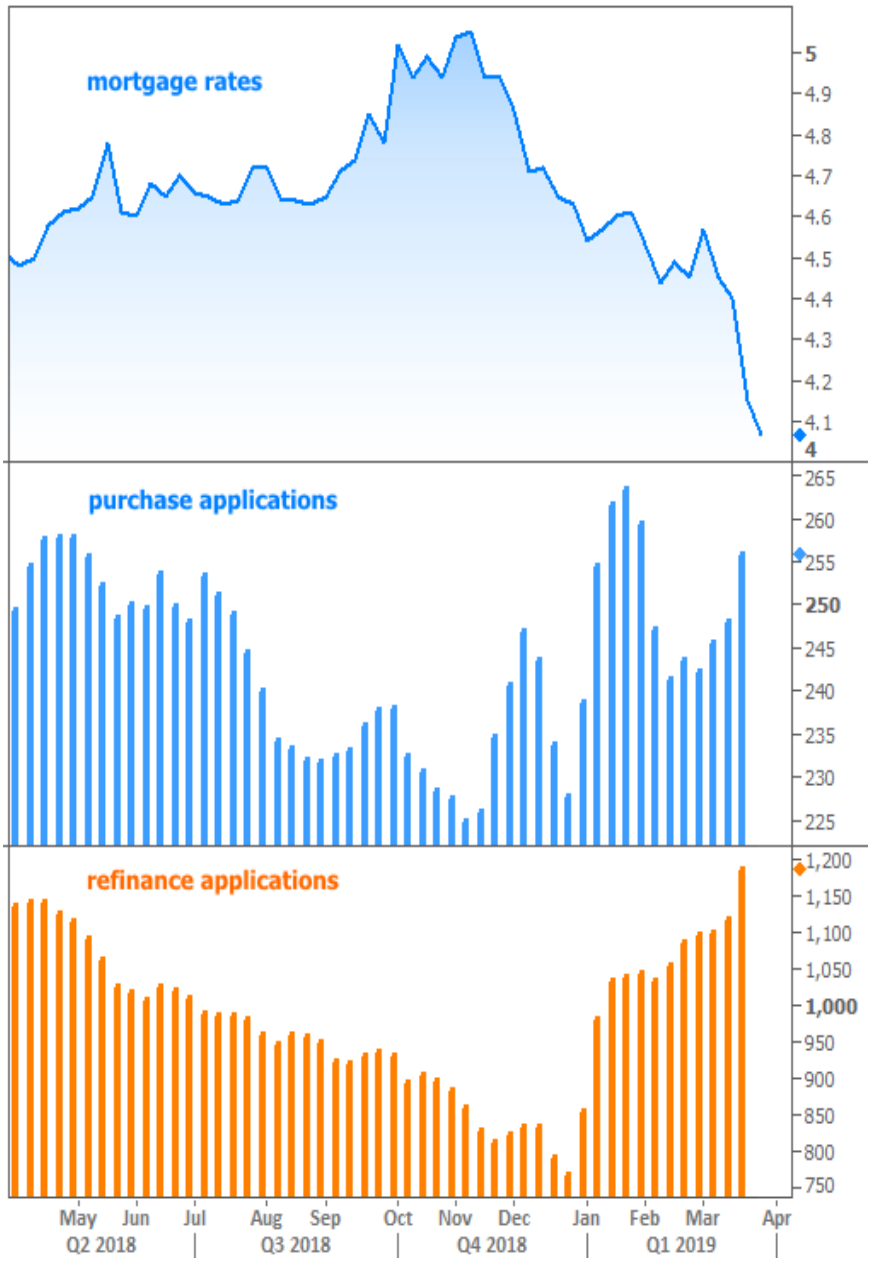



On the other end of the spectrum with respect to lag time, mortgage applications (both purchase and refi) immediately **surged** as rates hit new long-term lows.

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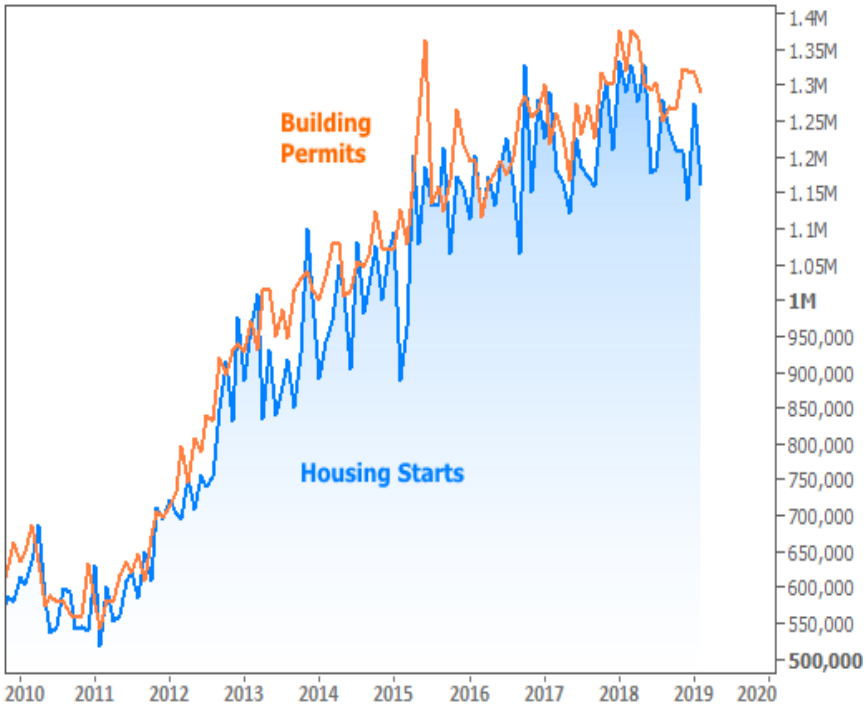



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Last and least (at least among these peers), New Residential Construction contracted a bit in February. The move was more pronounced in terms of housing starts (the first phase of construction), which are typically **more volatile** compared to the mere filing of building permits. This data series isn't of tremendous interest because it's been much steadier than the sales-related reports.




If financial markets are going to make big decisions based on economic data, next week could be interesting. 4 out of 5 days have significant reports with Retail Sales and ISM Manufacturing leading things off on Monday. ADP Employment and ISM Manufacturing make Wednesday a candidate for volatility as well, but **Friday trumps all** with the mighty jobs report. The payroll count (part of the jobs report) will be especially interesting following last month's shockingly low 20k. The current consensus is for 170k.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Tuesday, Mar 26** | | | | |
| 8:30AM | Feb Build permits: change mm (%) | -1.6 | | -0.7 |
| 8:30AM | Feb Housing starts number mm (ml) | 1.162 | 1.213 | 1.230 |
| 8:30AM | Feb House starts mm: change (%) | -8.7 | | 18.6 |
| 8:30AM | Feb Building permits: number (ml) | 1.296 | 1.300 | 1.317 |
| 9:00AM | Jan CaseShiller 20 yy (%) | 3.6 | 4.0 | 4.2 |
| 9:00AM | Jan Monthly Home Price yy (%) | 5.6 | | 5.6 |
| 10:00AM | Mar Consumer confidence | 124.1 | 132.0 | 131.4 |
| **Wednesday, Mar 27** | | | | |
| 7:00AM | w/e MBA Purchase Index | 267.5 | | 251.5 |
| 7:00AM | w/e Mortgage Refinance Index | 1289.5 | | 1146.8 |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Thursday, Mar 28** | | | | |
| 8:30AM | Q4 GDP Final (%) | 2.2 | 2.4 | 2.6 |
| 8:30AM | w/e Jobless Claims (k) | 211 | 217 | 221 |
| 10:00AM | Feb Pending Home Sales (%) | -1.0 | 0.7 | 4.6 |
| 10:00AM | Feb Pending Sales Index | 101.9 | | 103.2 |
| **Friday, Mar 29** | | | | |
| 8:30AM | Jan Core PCE Inflation (y/y) (%) | 1.8 | 1.9 | 1.9 |
| 9:45AM | Mar Chicago PMI | 58.7 | 61.0 | 64.7 |
| 10:00AM | Mar Consumer Sentiment (ip) | 98.4 | 97.8 | 97.8 |
| 10:00AM | Feb New home sales-units mm (ml) | 0.667 | 0.620 | 0.607 |
| 10:00AM | Feb New home sales chg mm (%) | 4.9 | 1.3 | -6.9 |
| **Monday, Apr 01** | | | | |
| 8:30AM | Feb Retail Sales (%) | -0.2 | 0.3 | 0.2 |
| 10:00AM | Mar ISM Manufacturing PMI | 55.3 | 54.5 | 54.2 |
| 10:00AM | Jan Business Inventories (% ) | +0.8 | 0.5 | 0.6 |
| 10:00AM | Feb Construction spending (%) | 1.0 | -0.2 | 1.3 |
| **Tuesday, Apr 02** | | | | |
| 8:30AM | Feb Durable goods (%) | -1.6 | -1.8 | 0.3 |
| 8:30AM | Feb Nondefense ex-air (%) | -0.1 | 0.0 | 0.8 |
| **Wednesday, Apr 03** | | | | |
| 7:00AM | w/e MBA Purchase Index | 276.6 | | 267.5 |
| 7:00AM | w/e Mortgage Refinance Index | 1786 | | 1289.5 |
| 8:15AM | Mar ADP National Employment (k) | 129.0 | 170 | 183 |
| 10:00AM | Mar ISM N-Mfg PMI | 56.1 | 58.0 | 59.7 |
| **Thursday, Apr 04** | | | | |
| 8:30AM | w/e Jobless Claims (k) | 202 | 210 | 211 |
| **Friday, Apr 05** | | | | |
| 8:30AM | Mar Average earnings mm (%) | +0.1 | 0.3 | 0.4 |
| 8:30AM | Mar Unemployment rate mm (%) | 3.8 | 3.8 | 3.8 |
| 8:30AM | Mar Non-farm payrolls (k) | +196 | 180 | 20 |

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# Listen, Analyze, Solve

David started in the mortgage industry in 2001 and has kept the same philosophy from day one: "Keep the client's best interest at the forefront of every transaction." What works for one client will not necessarily work for the next. David first listens, then evaluates and finally researches options making sure all possibilities have been considered. Once the proper path is determined, David works to make the process as quick and painless as possible, providing excellent service and communicating every step along the way.

**David Hanks** 

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