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## Strong Jobs Data Complicates Rate Outlook

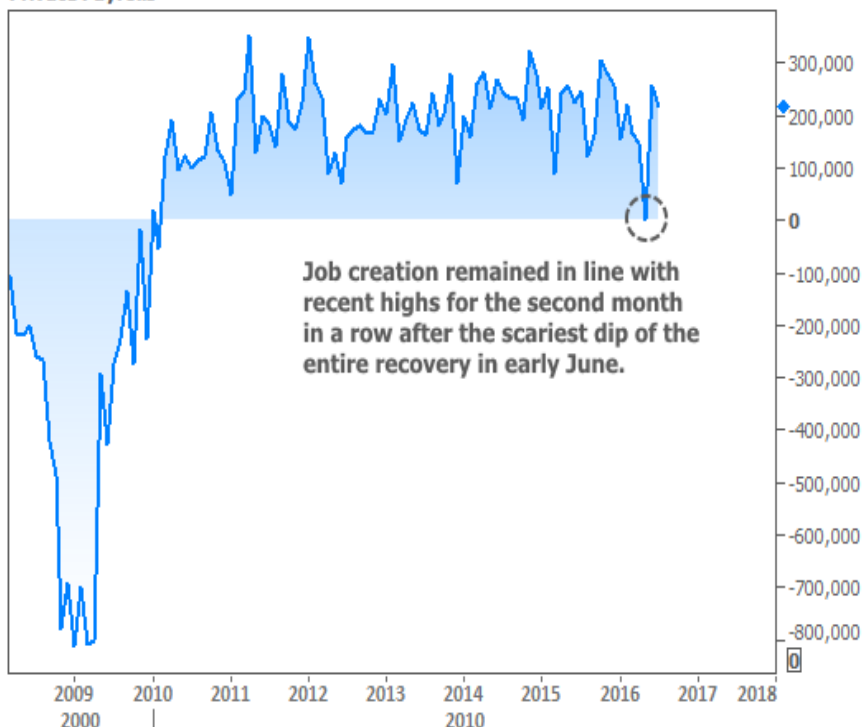
The month of July saw rates bounce up from **all-time lows** immediately following a strong jobs report. Rates managed to hold sideways during the 2nd half of July as investors waited for announcements from central banks, among other things.

Whether we're talking about the mighty Federal Reserve, the Bank of Japan, or the Bank of England, central banks around the world have a **major effect** on financial markets. Interest rates weathered the storm of central bank announcements quite well, avoiding a break above those 'sideways' levels from July.

But the policy statement from the Federal Reserve **left the door open** for economic data to influence the rate hike outlook over the next few months. In other words, if certain key pieces of data came out stronger than expected, the Fed would be increasingly likely to hike rates.

That's exactly what happened with this week's jobs report. It was an **important victory** for labor markets because it confirmed a bounce back from the scariest slide in job creation of the entire recovery (seen in the June 3rd jobs report).

Private Payrolls



## National Average Mortgage Rates



|                            | Rate  | Change | Points |
|----------------------------|-------|--------|--------|
| <b>Mortgage News Daily</b> |       |        |        |
| 30 Yr. Fixed               | 6.89% | 0.00   | 0.00   |
| 15 Yr. Fixed               | 6.33% | +0.01  | 0.00   |
| 30 Yr. FHA                 | 6.33% | +0.01  | 0.00   |
| 30 Yr. Jumbo               | 7.05% | 0.00   | 0.00   |
| 5/1 ARM                    | 6.58% | 0.00   | 0.00   |
| <b>Freddie Mac</b>         |       |        |        |
| 30 Yr. Fixed               | 6.77% | -0.09  | 0.00   |
| 15 Yr. Fixed               | 6.05% | -0.11  | 0.00   |

Rates as of: 7/22

## Market Data

|                | Price / Yield | Change  |
|----------------|---------------|---------|
| MBS UMBS 5.5   | 99.49         | +0.10   |
| MBS GNMA 5.5   | 99.91         | +0.13   |
| 10 YR Treasury | 4.2320        | -0.0205 |
| 30 YR Treasury | 4.4542        | -0.0183 |

Pricing as of: 7/23 8:57AM EST

## Recent Housing Data

|                     | Value        | Change  |
|---------------------|--------------|---------|
| Mortgage Apps       | Jul 10 206.1 | -0.19%  |
| 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%  |

Unfortunately, the bigger the victory, the **greater the effect** on the Fed rate hike outlook. Although the Fed Funds Rate doesn't directly control mortgage rates, when expectations increase for a Fed rate hike, longer-term rates (like mortgages and 10yr Treasury yields) tend to increase as well. That's what happened in early July and that's what's happening again at the end of this week.

Following Friday's jobs report, the probabilities for a Fed rate hike in September **doubled**, albeit only from 9 to 18 percent. The December likelihood leapt 10 percentage points to just under 40 percent. Treasuries and mortgage rates increased quickly, leaving us to wonder if this is just the beginning of a more serious push back against July's all-time lows.

The following chart shows how rates were initially coaxed out of 2016's consolidative trend by the weak jobs report in June, as well as Brexit. From there, you can see how the strong jobs data in early July began the push back against the lows.

Rate Momentum Heading Into August



Now that we have a 2nd consecutive jobs report coming in so strong, the question is: will the **upward momentum in rates** be that much stronger? In considering that possibility, it will be useful to keep an eye on the low 1.6% range in 10yr Treasury yields, as that has been an important ceiling recently. When rates continually bounce against such ceilings, it's the market's way of letting us know it would be important if the ceiling ends up being broken.

**Housing-Specific Data**

Black Knight discussed the "**Brexit Effect**" on refinance demand. It should be fairly clear from this week's charts that Brexit juiced rates, resulting in a logical spike in refi demand. No major news there, if you've been reading my newsletters.

Slightly more newsworthy is the ongoing cooling in home price appreciation reported by CoreLogic. This **doesn't** mean prices are falling--simply that they're rising at a slower pace. This trend of deceleration is more than 6 months old now.

In a similar vein, CoreLogic also reported on rental price trends. This has been a more bulletproof sector than home prices in terms of upward trends, but now CoreLogic is **calling the peak** in rent price appreciation.

Surprising some analysts, [Freddie Mac](#) announced **bigger-than-expected profits**, unequivocally avoiding the need for any taxpayer assistance. As always, keep in mind that even if Freddie did require a draw from Treasury that it has already more than paid back the amount it borrowed from taxpayers. It is only in a position to need a draw because the government takes all the excess profit from the GSEs under the conservatorship agreement.

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## Recent Economic Data

| Date                     | Event   | Actual | Forecast | Prior |
|--------------------------|---|--------|----------|-------|
| <b>Monday, Aug 01</b>    |   |        |          |       |
| 10:00AM                  | Jul ISM Manufacturing PMI                     | 52.6   | 53.0     | 53.2  |
| 10:00AM                  | Jun Construction spending (%)                 | -0.6   | 0.5      | -0.8  |
| <b>Tuesday, Aug 02</b>   |   |        |          |       |
| 8:30AM                   | Jun Personal consump real mm (%)              | +0.3   |          | 0.3   |
| 8:30AM                   | Jun Consumption, adjusted mm (%)              | +0.4   | 0.3      | 0.4   |
| 9:45AM                   | Jul ISM-New York index                        | 721.1  |          | 715.8 |
| <b>Wednesday, Aug 03</b> |   |        |          |       |
| 7:00AM                   | w/e Mortgage Market Index                     | 526.8  |          | 545.8 |
| 8:15AM                   | Jul ADP National Employment (k)               | 179.0  | 170      | 172   |
| 10:00AM                  | Jul ISM N-Mfg PMI                             | 55.5   | 56.0     | 56.5  |
| 10:00AM                  | Jul ISM N-Mfg Bus Act                         | 59.3   | 59.5     | 59.5  |
| <b>Thursday, Aug 04</b>  |   |        |          |       |
| 8:30AM                   | w/e Initial Jobless Claims (k)                | 269    | 265      | 266   |
| 10:00AM                  | Jun Factory orders mm (%)                     | -1.5   | -1.8     | -1.0  |
| <b>Friday, Aug 05</b>    |   |        |          |       |
| 8:30AM                   | Jul Non-farm payrolls (k)                     | +255   | 180      | 287   |
| 8:30AM                   | Jul Private Payrolls (k)                      | +217   | 170      | 265   |
| 8:30AM                   | Jul Unemployment rate mm (%)                  | 4.9    | 4.8      | 4.9   |
| 8:30AM                   | Jun International trade mm \$ (bl)            | -44.51 | -43.1    | -41.1 |
| <b>Tuesday, Aug 09</b>   |   |        |          |       |
| 10:00AM                  | Jun Wholesale inventories mm (%)              | +0.3   | 0.0      | 0.0   |
| 1:00PM                   | 3-Yr Note Auction (bl)                        | 24     |          |       |
| <b>Wednesday, Aug 10</b> |   |        |          |       |
| 12:00AM                  | Roll Date - Fannie Mae 30YR, Freddie Mac 30YR |        |          |       |
| 7:00AM                   | w/e Mortgage Market Index                     | 564.0  |          | 526.8 |
| <b>Thursday, Aug 11</b>  |   |        |          |       |
| 8:30AM                   | Jul Import prices mm (%)                      | +0.1   | -0.3     | 0.2   |
| 8:30AM                   | Jul Export prices mm (%)                      | +0.2   | 0.0      | 0.8   |
| <b>Friday, Aug 12</b>    |   |        |          |       |
| 8:30AM                   | Jul Retail sales mm (%)                       | 0.0    | 0.4      | 0.6   |

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

| Date                     | Event                           | Actual | Forecast | Prior |
|--------------------------|---------------------------------|--------|----------|-------|
| 10:00AM                  | Jun Business inventories mm (%) | +0.2   | 0.1      | 0.2   |
| <b>Wednesday, Oct 12</b> |                                 |        |          |       |
| 1:00PM                   | 10-yr Note Auction (bl)         | 20     |          |       |
| <b>Thursday, Oct 13</b>  |                                 |        |          |       |
| 1:00PM                   | 30-Yr Bond Auction (bl)         | 12     |          |       |

## We're here to help with all home mortgage needs.

With over 20 years of mortgage industry experience, Scott Kepler has helped thousands of families to purchase or refinance their homes. As a Mortgage Lender, Scott and his team are able to give families access to a variety of home loan options; after all, no two situations are the same.

Give Scott and his team a call today for a Free Mortgage Check-Up or Purchase Home Loan Pre-Qualification.

Offering financing for:

First Time Home Buyer

Conventional (Fannie Mae/Freddie Mac)

FHA

VA

USDA

Jumbo

Reverse

Renovation

Self Employed

Home Equity Loans/Lines of Credit

Credit Challenged / Alt-A

Investor or Second Home

Hard Money

Small Commercial

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