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# Fed Hikes, But Mortgage Rates Fall. Here's Why

Last week's newsletter made the case that this week's Fed rate hike was "**pointless**" because bond markets (and mortgage rates) had already fully adjusted for it. Instead, it would be the Fed's economic projections (their forecasts for future rate hikes) that would make or break this week's rate movement. That's exactly what happened.

Bond markets are always doing their best to adjust **today's** rates to match **future** expectations, based on a number of variables. One of the most important variables is the Fed rate hike outlook. All other things being equal, if bond markets see the Fed hiking the Fed Funds Rate sooner or faster, **other** rates (like mortgages and 10yr Treasury yields) will rise. Back in late February, the Fed embarked on a PR campaign to convince bond markets of precisely that.

A series of comments from various Fed speakers caused a **rapid** increase in rate hike expectations for the March meeting. In turn, this pushed 10yr yields and mortgage rates quickly higher in the first week of March. By that point, this week's Fed rate hike was **fully** accounted for.

In the 2nd week of March, the ADP Employment report **crushed** forecasts, showing job growth that was 50% faster than expected. ADP is one of several advance indicators for the all-important Employment Situation (the big "jobs report"). Markets quickly adjusted for the possibility that the Employment Situation would be similarly stellar. They concluded the Fed's rate hike **outlook** would accelerate (remember, that's a key ingredient for present day rates).

As such, it was **no surprise** to see 10yr yields and mortgage rates continue higher while March's Fed rate hike expectations held steady (after all, March expectations were essentially maxed-out).

But the Fed **surprised** markets by releasing a fairly **tame** set of economic projections. In fact, for the end of 2017 and 2018, the median rate expectation among Fed members turned out to be exactly the same as the last set of projections (in December), and the 2019 outlook rose by a meager 0.125%. Rates reacted decisively.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.50% | -0.01 | 0.00 |
| 15YR Fixed | 7.04% | 0.00 | 0.00 |
| 30YR FHA | 7.07% | -0.01 | 0.00 |
| 30YR Jumbo | 7.52% | 0.00 | 0.00 |
| 7/6 SOFR | 7.12% | 0.00 | 0.00 |
| 30YR VA | 7.08% | -0.02 | 0.00 |

Rates as of: 11/17

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 98.84 | +0.14 |
| 10 YR Treasury | 5.1012 | -0.0330 |
| 30 YR Treasury | 5.4591 | -0.0167 |

Pricing as of: 11/17 2:53PM EST

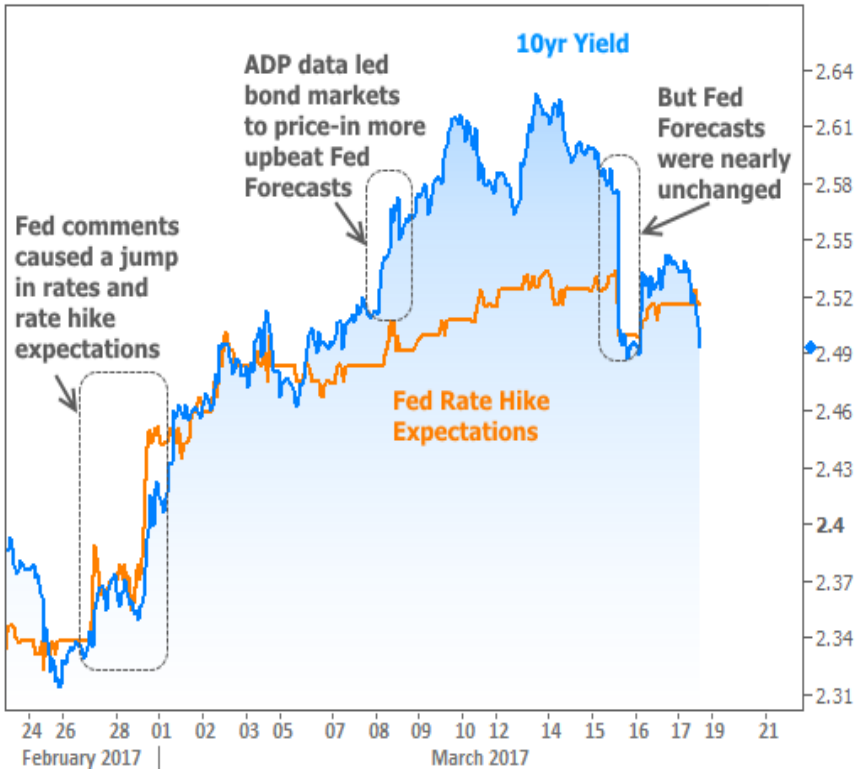
## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Nov 4 | 204.6 | +6.23% |
| 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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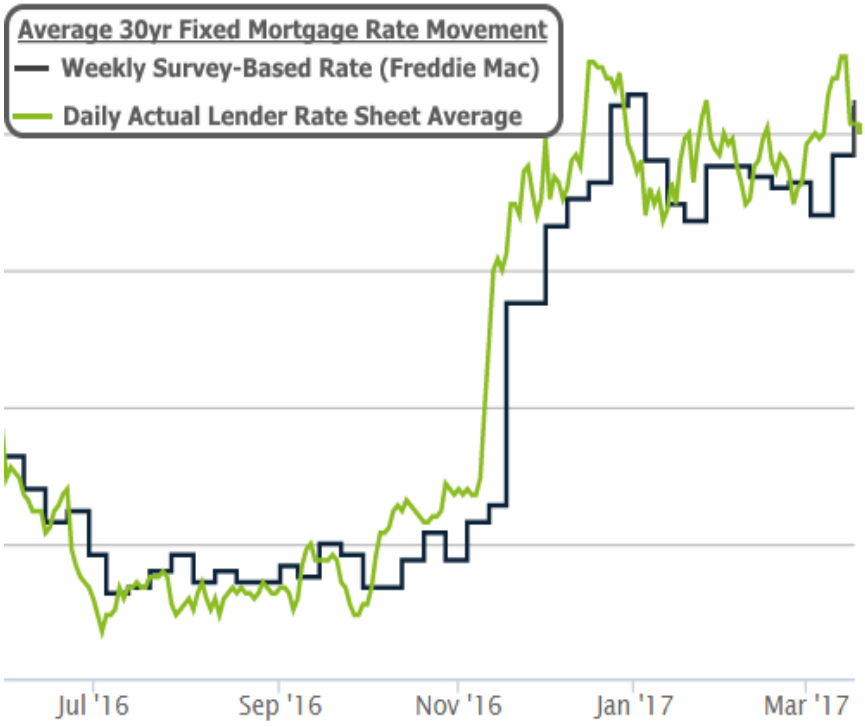

The bond market improvement translated to a **significant drop** in mortgage rates on Wednesday afternoon. Lenders were certainly defensive before that, and their collective sigh of relief was evident in the new rate sheets that came out late in the day and on Thursday morning.

Some news articles from Thursday and Friday will suggest that rates are at 2017 highs. While that **was** true on Wednesday morning, it's **no longer** the case. Those articles are relying on weekly survey data from Freddie Mac which only captures rate movement between Monday and Wednesday morning. Actual lender rate sheets show rates at 2-week lows. Freddie's numbers should reflect this next Thursday, barring significant volatility early next week.

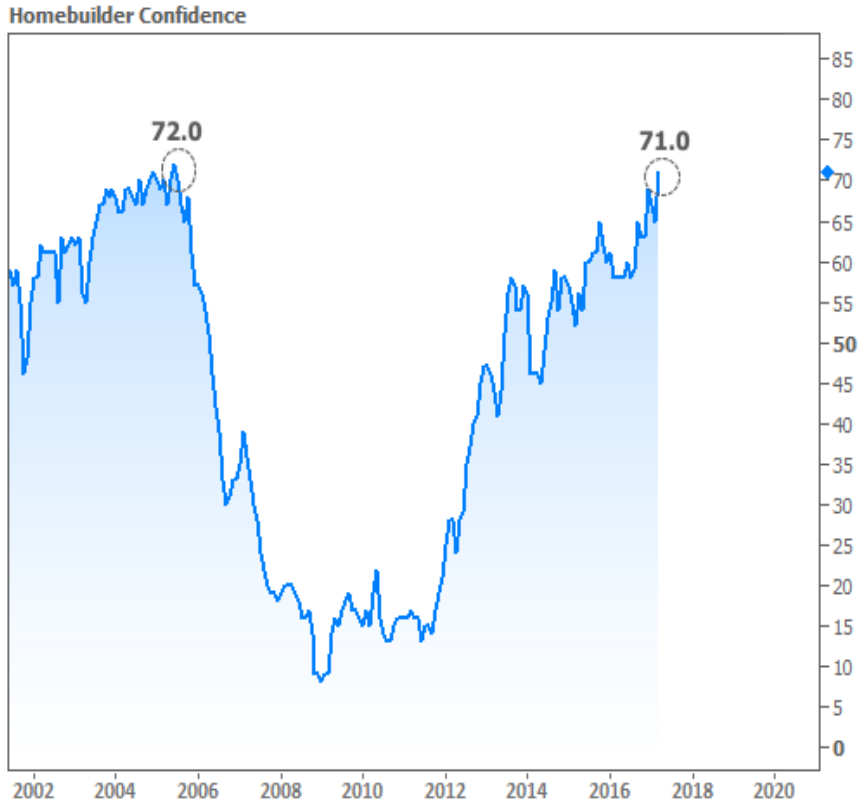
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Beyond the world of rates, there was **more good news** for the housing market this week. Several housing-related economic reports were strong. The NAHB reported that homebuilder confidence reached the highest levels in **more than 12 years**--nearly matching the best mark from the housing boom.




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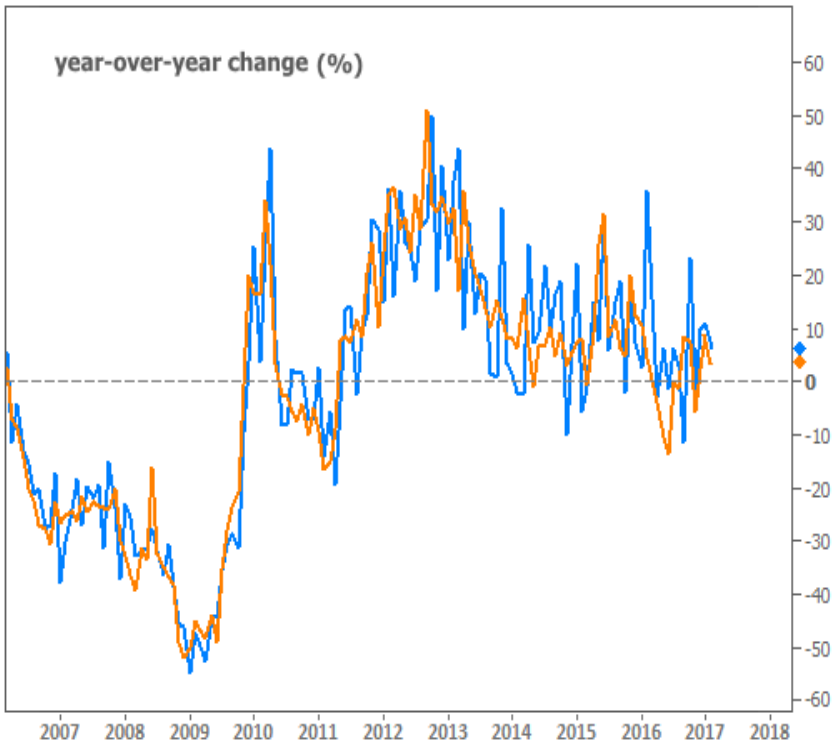
Residential construction numbers were also strong, according to The Census Bureau. **Housing Starts** (the first phase of construction) and **Building Permits** didn't match the grandeur of the builder confidence numbers, but they maintained healthy trends nonetheless. The following chart shows the outright level of Permits and Starts followed by the year-over-year change (which is remaining in positive territory after dipping below in 2016).

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Perhaps the **most important news of the week** for homeowners and prospective homebuyers is a series of credit scoring changes announced by the major credit bureaus. Civil judgments and tax liens will no longer appear on credit reports unless they were filed according to certain standards. Most judgments currently don't meet these standards and will therefore no longer appear on credit reports. This will make for immediate **credit score improvements**.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Tuesday, Mar 14** | | | | |
| 8:30AM | Feb Producer Prices (%) | 0.3 | 0.1 | 0.6 |
| 8:30AM | Feb Core Producer Prices YY (%) | 1.5 | 1.5 | 1.2 |
| **Wednesday, Mar 15** | | | | |
| 7:00AM | w/e Mortgage Market Index | 418.1 | | 405.7 |
| 7:00AM | w/e Mortgage Refinance Index | 1413.3 | | 1357.6 |
| 7:00AM | w/e MBA Purchase Index | 240.3 | | 235.0 |
| 8:30AM | Feb Retail sales mm (%) | 0.1 | 0.1 | 0.4 |
| 8:30AM | Feb Core CPI Year/Year (%) | +2.2 | 2.2 | 2.3 |
| 8:30AM | Feb CPI mm, sa (%) | +0.1 | 0.0 | 0.6 |
| 2:00PM | N/A FOMC rate decision (%) | 0.75-1.00 | 0.875 | 0.625 |
| **Thursday, Mar 16** | | | | |
| 8:30AM | Feb Housing starts number mm (ml) | 1.288 | 1.260 | 1.246 |
| 8:30AM | Feb Building permits: number (ml) | 1.213 | 1.260 | 1.293 |
| 8:30AM | Mar Philly Fed Business Index | 32.8 | 30.0 | 43.3 |
| 8:30AM | w/e Initial Jobless Claims (k) | 241 | 240 | 243 |
| **Friday, Mar 17** | | | | |
| 9:15AM | Feb Industrial Production (%) | 0.0 | 0.2 | -0.3 |
| 9:15AM | Feb Capacity Utilization (%) | 75.4 | 75.5 | 75.3 |
| 10:00AM | Feb Leading index chg mm (%) | 0.6 | 0.4 | 0.6 |
| 10:00AM | Mar Consumer Sentiment Prelim | 97.6 | 97.0 | 95.7 |
| **Wednesday, Mar 22** | | | | |
| 7:00AM | w/e Mortgage Market Index | 406.8 | | 418.1 |
| 9:00AM | Jan Monthly Home Price mm (%) | 0.0 | | 0.4 |
| 10:00AM | Feb Existing home sales (ml) | 5.48 | 5.57 | 5.69 |
| **Thursday, Mar 23** | | | | |
| 10:00AM | Feb New home sales-units mm (ml) | 0.592 | 0.565 | 0.555 |
| **Friday, Mar 24** | | | | |
| 8:30AM | Feb Durable goods (%) | +1.7 | 1.2 | 2.0 |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Thursday, May 18** | | | | |
| 1:00PM | 10-yr TIPS Auction (bl) | 11 | | |


## 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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