

Scott Kepler
Principal Broker, Mortgage Approval Group, LLC
NMLS 833792 Company NMLS# 1742769
2918 Busch Lake Blvd, Suite A Tampa, FL 33614

Office: 813.444.8537
Mobile: 813.565.0884
scott@scottkepler.com
View My Website

Jobs Report Adds Fuel to Fed's Fire

Last week's newsletter was all about the Fed Minutes, which showcased a fairly detailed strategy for reducing the size of the Fed's balance sheet. It was generally more **rate-friendly** than investors expected. This week's jobs report added to the positive momentum--at least for rates!

Stocks, on the other hand, **don't** seem to be wanting for positive momentum. They've been moving steadily higher since November's Presidential election, slowly catching up to the massive spike in interest rates (which had already topped out by the end of 2016 as seen in the chart below).

Back in November, rates spiked faster than stocks because rates (which are driven by the bond market) had to read deeper meaning into the election results. **Not only** did rates have to adjust for economic growth and inflation potential, but **also** for the likely changes in Fed policy--specifically to the reinvestment policy (in which, Fed bond buying helps rates stay lower than they otherwise would be).

While Fed rate hike expectations definitely have an impact on longer term rates like 10yr Treasury yields and mortgages, it wasn't until the Fed began **demystifying** its reinvestment plans that rates were able to make a meaningful move back toward lower levels.

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	5.0997	-0.0345
30 YR Treasury	5.4580	-0.0178

Pricing as of: 11/17 2:54PM EST

Recent Housing Data

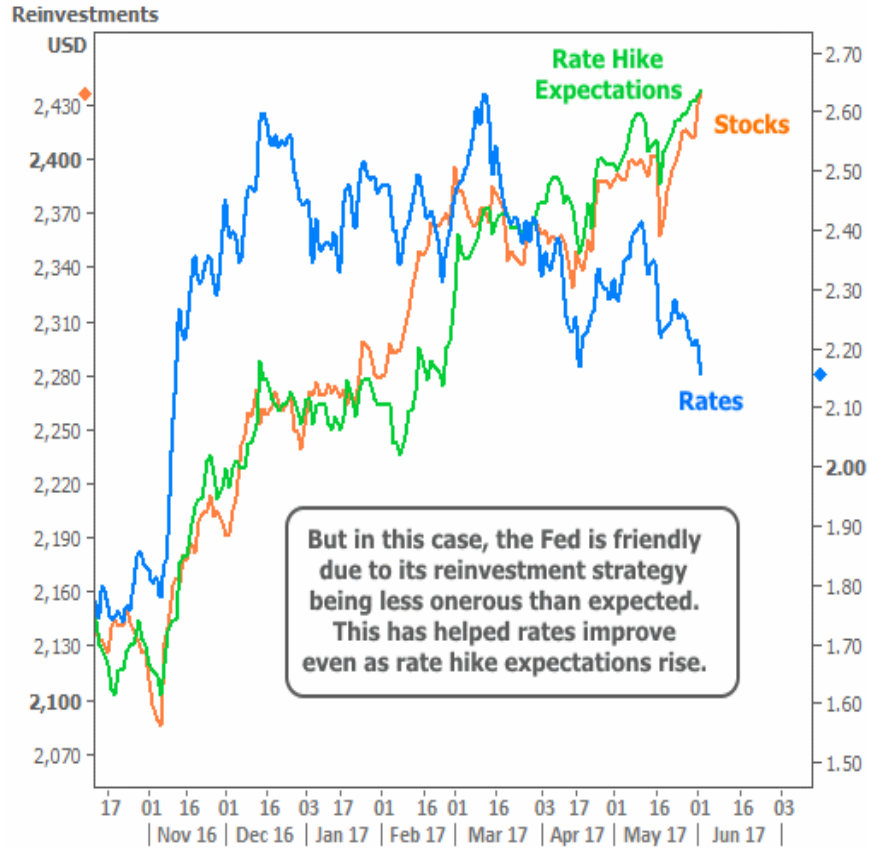
		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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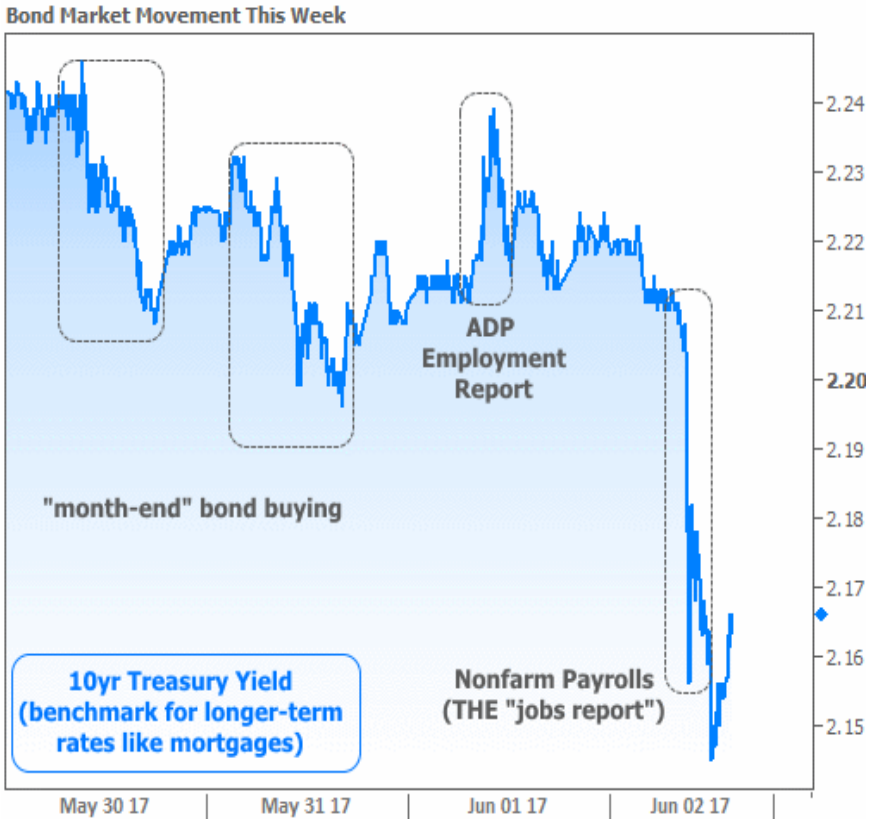


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Fed policy often accounts for the **biggest** shifts in rate momentum, while the day-to-day events and headlines act more like fine-tuning adjustments. This week, those smaller adjustments took the form of "month-end bond buying" on Tuesday and Wednesday (compulsory trades from money managers who have to be holding a certain mix of bonds by the end of the month). On Thursday, there was some volatility surrounding the ADP Employment report, but it was **Friday's jobs report** that caused the biggest move.



While "big" in the context of this week, Friday was still one of those "fine-tuning adjustments" in the bigger picture. The reason it's **more exciting than normal** is that it brings rates to a very important line in the sand.

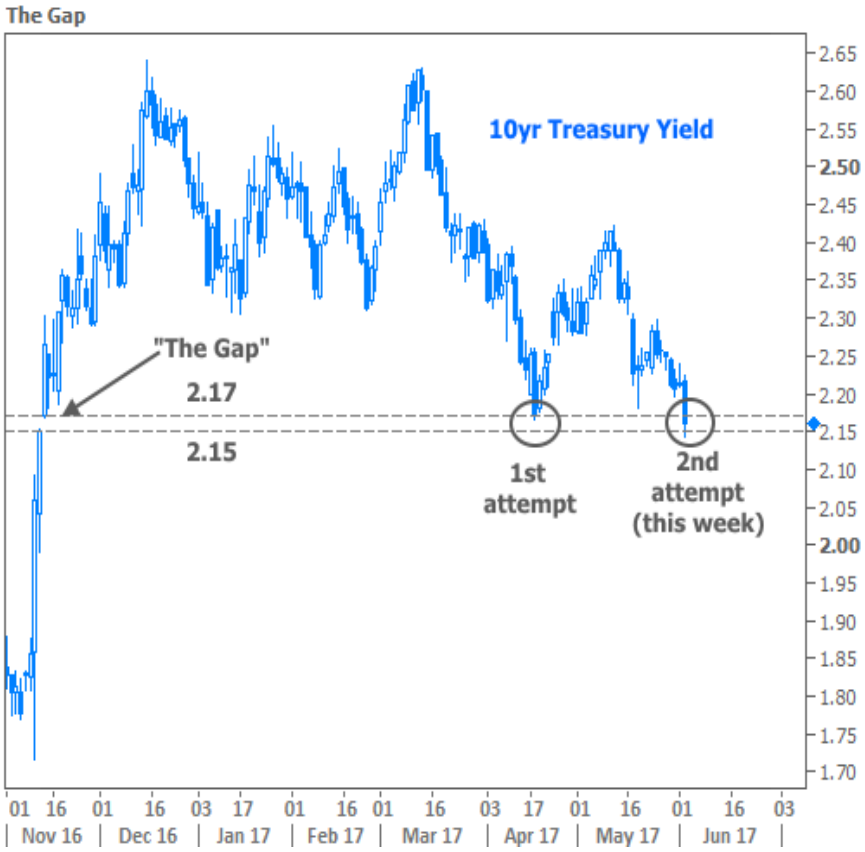
Following the election, US 10yr yields (the quintessential benchmark for momentum in longer-term rates like mortgages) formed a prominent "gap" between the closing levels of one day and the opening levels of the next. This is typically only seen in the midst of major shifts in momentum.

Breaking **THROUGH** the gap would be a big deal as it would suggest an end to this period of negative momentum. This week began with rates being fairly close to the gap. From there, weaker jobs numbers provided the final fine-tuning adjustment. In the chart above, it was as simple as getting below 2.17%. In the chart below, we see rates' second attempt since the election to storm the proverbial castle. The first attempt was unsuccessful. Will things be **different this time?** We'll know a lot more about that when we see how bonds trade next week.

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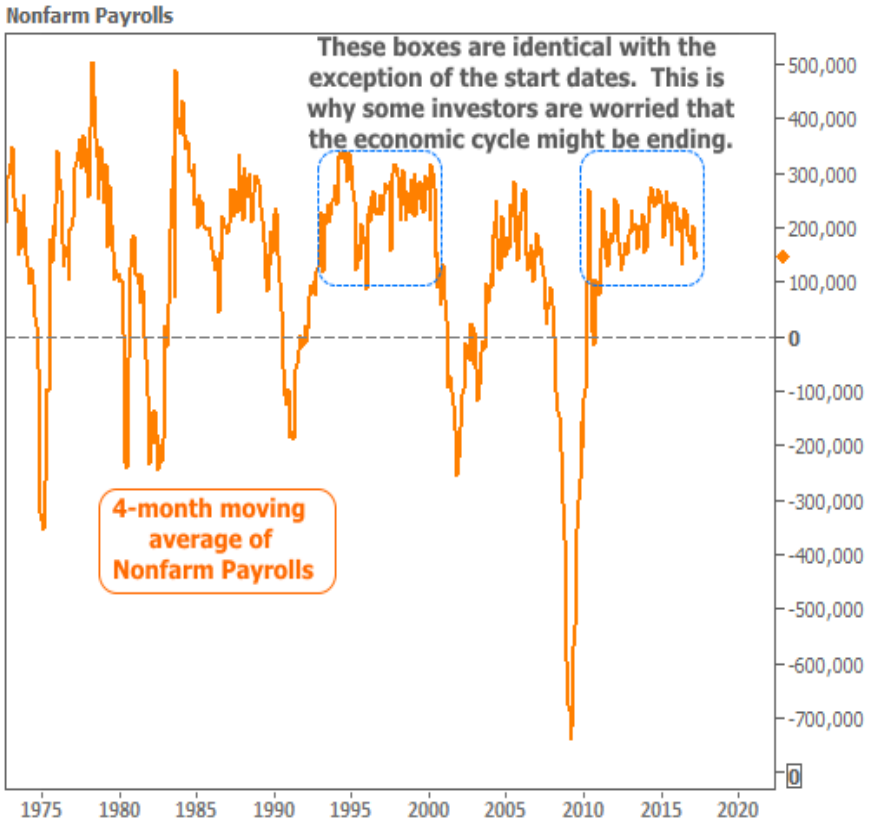
When/if this gap breaks, it **could merely be the beginning** of additional positive momentum. With fiscal policy plans hitting roadblocks this spring and some softness in the economic data, traders are once again considering the risk of the economic cycle "rolling over." This is a simple reference to economic expansions (adding jobs, positive changes in GDP) vs contractions (losing jobs, negative GDP).

The positive economic cycle in the 90's is often cited as a paragon of stability and staying power in terms of job creation. The chart below highlights that cycle compared to the current expansion. **Long story short,** this week's jobs numbers (nonfarm payrolls) did nothing to reject the notion that the current cycle remains at risk of rolling over--if not now, then soon.

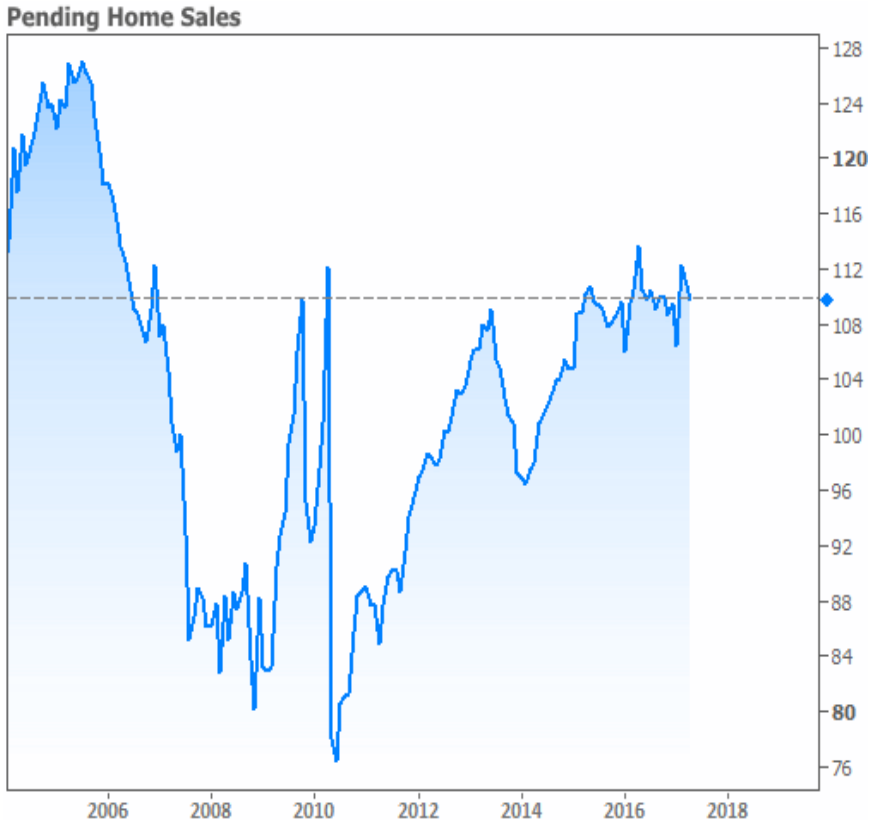
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This week's **housing-specific data** sang a similar tune, with Pending Home Sales falling in line with 2016's averages. This advance indicator of sales activity increasingly looks to be stalling-out since 2015.



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Not all the housing news was bad, however. **Home prices** continued to defy the odds according to separate reports from Black Knight and Case-Shiller. At the same time, Fannie Mae implemented an underwriting change that could help a few more prospective homebuyers qualify for loans on these ever-pricier homes by **easing DTI** (debt-to-income) requirements.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, May 30				
8:30AM	Apr Consumption, adjusted mm (%)	+0.4	0.4	0.0
8:30AM	Apr Personal income mm (%)	+0.4	0.4	0.2
8:30AM	Apr Core PCE price index yy (%)	+1.5		1.6
10:00AM	May Consumer confidence	117.9	119.8	120.3
Wednesday, May 31				
7:00AM	w/e MBA Purchase Index	238.1		241.6
7:00AM	w/e Mortgage Refinance Index	1323.1		1402.0
9:45AM	May Chicago PMI	59.4	57.0	58.3
10:00AM	Apr Pending sales change mm (%)	-1.3	0.5	-0.8
10:00AM	Apr Pending homes index	109.8		111.4
Thursday, Jun 01				
8:15AM	May ADP National Employment (k)	253.0	185	177
8:30AM	w/e Initial Jobless Claims (k)	248	240	234
10:00AM	May ISM Manufacturing PMI	54.9	54.5	54.8
10:00AM	Apr Construction spending (%)	-1.4	0.5	-0.2
Friday, Jun 02				
8:30AM	May Non-farm payrolls (k)	+138	185	211
8:30AM	May Private Payrolls (k)	+147	173	194
8:30AM	May Unemployment rate mm (%)	4.3	4.4	4.4
Monday, Jun 05				
8:30AM	Q1 Productivity Revised (%)	0.0	0.0	-0.6
8:30AM	Q1 Labor Costs Revised (%)	+2.2	2.4	3.0
10:00AM	May ISM N-Mfg PMI	56.9	57.0	57.5
10:00AM	Apr Factory orders mm (%)	-0.2	-0.2	0.5
Wednesday, Jun 07				
7:00AM	w/e Mortgage Market Index	430.6		402.2
Friday, Jun 09				
10:00AM	Apr Wholesale inventories mm (%)	-0.5	0.2	-0.3
10:00AM	Apr Wholesale sales mm (%)	-0.4		0.0

Event Importance:

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

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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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