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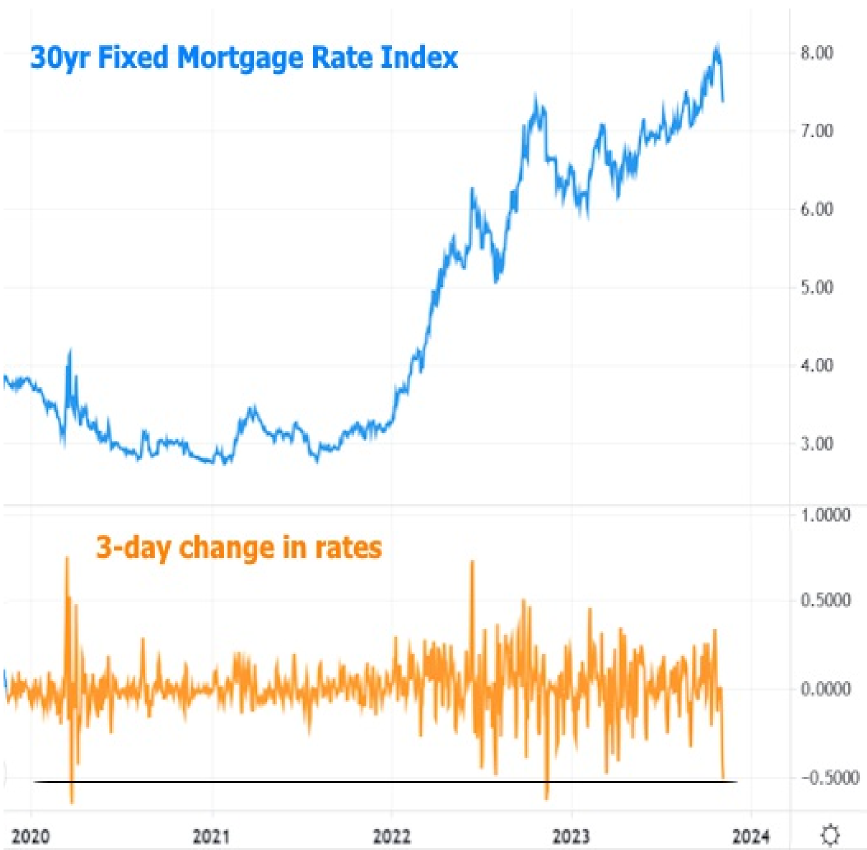
Tremendous Week For Interest Rates And Possibly Even For The Rate Outlook

The average top tier 30yr fixed mortgage rate was at 23 year highs as recently as October 19th. It wasn't much lower by the start of present week. What a difference a few days make, especially the last 3 which resulted in a massive 0.50% drop!

The improvement seen on Wed-Fri is the 3rd biggest in well over a decade. And if we throw out March 2020 (as we often do, due to unprecedented volatility relating to the onset of the pandemic), we're left with only one other similar example back in early November of 2022.



Like the present example, last November's big drop in rates happened only after setting new super-long-term highs. That's an important consideration because it speaks to market positioning and the psychology of momentum. It's no coincidence that we often see positive records just after hitting big negative milestones.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00

Rates as of: 5/17

Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.40	-0.15
MBS GNMA 6.0	100.78	+0.04
10 YR Treasury	4.4223	+0.0454
30 YR Treasury	4.5610	+0.0549

Pricing as of: 5/17 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
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%

That's not to say the improvement is random or that it is exclusively a reaction to previous rate spikes. The previous rate spikes merely add some "oomph" to the next big drop in rates. Big drops still need justification.

Last November, the justification was a low reading in the Consumer Price Index (CPI) that gave investors hope regarding a shift in inflation. Unfortunately, that shift proved to be a head-fake and rates continued lower into February of 2023, it's been up, up, and away since then.

This time around, economic data was a catalyst yet again, but it didn't act alone. The good times began to roll on Wednesday after Treasury announced lower-than-expected auction amounts. Treasury supply has been an increasingly hot topic for rates because supply has increased so much in the past few years. All else being equal, higher supply means higher rates for Treasuries, mortgages, and almost everything else.

This week's announcement was expected to show MORE supply, but the market expected even higher numbers. In addition, the announcement suggested that Treasury supply would only be going up one more time next quarter. That was received as good new by the bond market which had previously been acting like there was no end in sight.

The rally gained momentum with economic data at 10am and again with the Fed announcement in the afternoon. Thursday was mild by comparison, but kept the trajectory intact with help from slightly higher Jobless Claims data, and especially from traders exiting bets on higher rates.

In the bond market, the simple act of "no longer betting on higher rates" or technically, "short covering," forces a trader to effectively enter a bet on lower rates. In other words, if you'd been betting on higher rates, you'd have to buy bonds to end that bet, and bond buying puts more downward pressure on rates.

With an immense amount of improvement already seen on Wed/Thu, Friday's jobs report was in a unique position to cast a deciding vote on the past 2 days of potential exuberance. If jobs came in higher than forecast, the previous drop in rates would indeed have seemed overly exuberant and we would likely be seeing a decent push back.

As it happened, jobs were **lower** than forecast (good for rates). Additionally, the unemployment rate ticked up more than expected (good for rates) and the past few months of jobs gains were revised lower (good for rates!).

To be sure, the labor market is still exceptionally strong, but the rate market had been pricing in something even stronger. Friday's jobs numbers increasingly paint a picture of a labor market that is cooling back down to more historically normal levels.

The result of all of the above is the best 3 days for mortgage rates and bonds that we've seen since rates first began to launch higher 2 years ago. Granted, the magnitude of the drop is greatly facilitated by the fact rates were at multi-decade highs in the past few weeks, but we're not complaining.

10yr Treasury yields allow us to see the individual contributions outlined above:

As welcome as this drop in rates may be, context is important. This victory speaks to things that have already happened. It doesn't necessarily guarantee or even speak to what's to come. Even after this week's big drop, yields are merely back in line with a trend that's been pointing sharply higher since late July.

There's certainly not a rule that prohibits that red line from being broken, but the point is that it will take more time and data for deeper healing in the rate market. Yes, this week's data represents the best chance yet at that kind of healing, but if the data makes a miraculous recovery in the weeks ahead, the healing is on hold.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Oct 31				
8:30AM	Q3 Employment costs (%)	1.1%	1%	1%
9:00AM	Aug FHFA Home Price Index m/m (%)	0.6%	0.5%	0.8%
9:00AM	Aug Case Shiller Home Prices-20 y/y (%)	2.2%	1.6%	0.1%
9:00AM	Aug FHFA Home Prices y/y (%)	5.6%		4.6%
9:00AM	Aug CaseShiller 20 mm nsa (%)	0.4%		0.6%
9:45AM	Oct Chicago PMI	44	45	44.1
Wednesday, Nov 01				
7:00AM	Oct/27 MBA Purchase Index	125.2		127
7:00AM	Oct/27 MBA Refi Index	341.7		354
8:15AM	Oct ADP jobs (k)	113K	150K	89K
8:30AM	Quarterly Refunding Details			
10:00AM	Oct ISM Manufacturing PMI	46.7	49	49
10:00AM	Sep USA JOLTS Job Openings	9.553M	9.25M	9.61M
2:00PM	Fed Interest Rate Decision	5.5%	5.5%	5.5%
2:30PM	Fed Press Conference			
Thursday, Nov 02				
8:30AM	Oct/28 Jobless Claims (k)	217K	210K	210K
8:30AM	Q3 Labor Costs Revised (%)	-0.8%	0.7%	2.2%
8:30AM	Q3 Productivity Revised (%)	4.7%	4.1%	3.5%
Friday, Nov 03				
8:30AM	Oct Average earnings mm (%)	0.2%	0.3%	0.2%
8:30AM	Oct Non Farm Payrolls	150K	180K	336K
8:30AM	Oct Unemployment rate mm (%)	3.9%	3.8%	3.8%
9:45AM	Oct S&P Global Services PMI	50.6	50.9	50.1
10:00AM	Oct ISM N-Mfg PMI	51.8	53	53.6
Tuesday, Nov 07				
3:00PM	Sep Consumer credit (bl)			
Wednesday, Nov 08				
7:00AM	Nov/03 MBA Purchase Index			
7:00AM	Nov/03 MBA Refi Index			
10:00AM	Sep Wholesale inventories mm (%)			
Thursday, Nov 09				
8:30AM	Nov/04 Jobless Claims (k)			

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Friday, Nov 10				
10:00AM	Nov Consumer Sentiment (ip)			
Wednesday, Jan 10				
1:00PM	10-yr Note Auction (bl)	37		
Thursday, Jan 11				
1:00PM	30-Yr Bond Auction (bl)	21		

About Your Los Angeles Mortgage Broker

Shannon's expertise in residential mortgage lending spans more than 20 years. Beginning on the ground floor of the wholesale side of lending, Shannon subsequently succeeded as a loan officer, account manager, and account executive while working for one of the nation's largest mortgage lenders. In contrast to those who chose to leave the mortgage industry when the Los Angeles housing market began to spiral in 2008; Shannon's passion for helping others to become homeowners remained firmly intact. In fact the changes in the market and new lending laws made her want to help homebuyers to navigate the new rules of real estate lending more than ever. As such, she chose to transition to the retail side of real estate financing in effort to work closer with families, veterans, and those who had previous financial hardships to achieve their goals of home ownership. As a homeowner and real estate investor, Shannon's personal experience in obtaining mortgage loans for her own purchases is extensive. She has bought and sold multiple properties and continues to invest in real estate throughout Los Angeles County. Shannon's specialization and breadth of experience in real estate purchase loans enables her to offer standard/conventional loans, government loans, hard money loans, and specialty/portfolio products.

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