

MORTGAGE MARKET IN REVIEW

HOMETOWN AMERICA
INCORPORATED

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Market Comment

Mortgage bond prices finished the week near unchanged to slightly positive which kept rates steady. We started on a positive note late Monday as stocks showed continued weakness and the DOW closed down over 500 points. The NAHB Housing Index was 56 which was the lowest reading since May 2015. It was expected at 60. Housing starts were stronger than expected. The Fed raised rates 25 basis points as expected. Better than expected weekly jobless claims tempered some of the earlier rate improvements. Third quarter GDP rose 3.4% which was in line with expectations. The core PCE inflation reading rose 0.1% which was tame but was not enough to keep rates positive Friday morning. Mortgage interest rates finished the week unchanged to better by 1/8 of a discount point.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
2-year Treasury Note Auction	Monday, Dec. 24, 1:15 pm, et	None	Important. Notes will be auctioned. Strong demand may lead to lower mortgage rates.
5-year Treasury Note Auction	Wednesday, Dec. 26, 1:15 pm, et	None	Important. Notes will be auctioned. Strong demand may lead to lower mortgage rates.
Weekly Jobless Claims	Thursday, Dec. 27, 8:30 am, et	215K	Important. An indication of employment. Higher claims may result in lower rates.
New Home Sales	Thursday, Dec. 27, 10:00 am, et	545K	Important. An indication of economic strength and credit demand. Weakness may lead to lower rates.
Consumer Confidence	Thursday, Dec. 27, 10:00 am, et	135	Important. An indication of consumers' willingness to spend. Weakness may lead to lower mortgage rates.

7-year Treasury Note Auction	Thursday, Dec. 27, 1:15 pm, et	None	Important. Notes will be auctioned. Strong demand may lead to lower mortgage rates.
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GSEs

The 10 and 30-year Treasury bond yields are often viewed as “benchmarks”, reflecting the overall state of interest rates in the US economy. Many people concerned about mortgage interest rates track these bonds as a barometer for mortgage interest rates. However, in reality the Treasury and mortgage markets trade independently.

The supply and demand characteristics of Treasury bonds and mortgage-backed securities (MBS) differ significantly. Treasury securities represent money needed to fund the operations of the US government. MBSs, on the other hand, represent borrowing by homeowners.

Information related to Treasury bonds is relatively easy to come by. Almost every major news medium reports changes. On the other hand, accurate mortgage interest rate information is difficult and costly to obtain. In the absence of information directly related to the mortgage interest rate markets, Treasury information can be useful in that the bond market generally trends in the same direction. However, mortgage interest rates can vary significantly. In fact, many times the Treasuries will trade wildly while MBS only see minor price changes and vice versa. Last Thursday mortgage-backed securities fell 4/32nds at 10 am ET pricing while the 10-year Treasury rose 2/32nds and the 30-year Treasury rose 12/32nds at that time. This is a prime example where anyone that looked solely at Treasuries thought the mortgage market improved when in reality it got worse. The data provides a valuable lesson into the differences between treasury bonds and mortgage-backed securities. This is an example of why looking solely at treasuries can sometimes mislead people. Keying in on the correct information can mean the difference between saving and losing a tremendous amount of money when making float and lock decisions.

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