Newsletter-January 20th, 2025

MORTGAGE MARKET IN REVIEW

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Market Comment

Mortgage bond prices finished the week sharply higher which put significant downward pressure on rates. Trading picked up with significant surges throughout the week. We started on a sour note with sharp rate increases Monday. Tame producer inflation readings reversed the course Tuesday and set the overall tone for the remainder of the week despite other mixed data. Producer prices rose 0.2% vs 0.3%. The core, which excludes volatile food and energy prices, was unchanged vs up 0.3%. Consumer prices rose 0.4% vs 0.3%. The core rose 0.2% as expected. NAHB housing was 47 vs 45. Retail sales rose 0.4% vs 0.6%. Weekly Jobless claims were 217K vs 210K. Housing starts were 1.499M vs 1.32M. Mortgage interest rates finished the week better by approximately 1/2 of a discount point.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
Martin Luther King Day	Monday, Jan. 20		Important. No trading Monday. Trading may be volatile Tuesday after the extended holiday weekend.
Leading Economic Indicators	Wednesday, Jan. 22, 10:00 am, et	Down 0.1%	An indication of future economic activity. Weakness may lead to lower rates.
20-year Treasury Bond Auction	Wednesday, Jan. 22, 1:15 pm, et	None	Important. Bonds will be auctioned. Strong demand may lead to lower mortgage rates.
Weekly Jobless Claims	Thursday, Jan. 23, 8:30 am, et	215K	Important. An indication of employment. Higher claims may result in lower rates.
10-year Treasury TIPS Auction	Thursday, Jan. 23, 1:15 pm, et	None	Important. TIPS will be auctioned. Strong demand may lead to lower mortgage rates.
Existing Home Sales	Friday, Jan. 24, 10:00 am, et	4.16M	Low importance. An indication of mortgage credit demand. Significant weakness may lead to lower rates.
U of Michigan Consumer Sentiment	Friday, Jan. 24, 10:00 am, et	73.2	Important. An indication of consumers' willingness to spend. Weakness may lead to lower mortgage rates.

Term Premia

In standard economic theory yields are composed of two factors: expectations for the future path of rates and term premium. The Fed indicates, “The term premium is defined as the compensation that investors require for bearing the risk that interest rates may change over the life of the bond. Since the term premium is not directly observable, it must be estimated, most often from financial and macroeconomic variables.” The Fed issues US Treasury term premia estimates from several models. These models tend to trend in the same direction, just like MBSs and Treasuries, but often show large gaps and discrepancies.

This is important to remember when contemplating where mortgage interest rates will be in the future. The results from the most sophisticated models and the most powerful institutions are constantly revised. With that in mind, a cautious approach to float/lock decisions is prudent.