Mortgage Rates Remain at Mercy of Broader Markets

By: Victor Burek | Mon, Aug 24 2009, 10:52 AM

After bouncing around a wide range last week, prices of mortgage backed securities returned to Monday's opening levels on Friday, forcing lenders to increase mortgage rates a few basis points, bringing the par 30 year fixed mortgage rate back above 5.00% This range bound theme has held consistent throughout the summer. Over the last few months, mortgage rates have stayed between 4.875% and 5.75%.

A new week is ahead though...what's is in store for mortgage rates?

This week the economic data calendar isn't necessarily light, but we wouldn't consider the expected releases to be major market movers either, especially with many market participants still out on vacation. That said mortgage pricing will likely be taking direction from the stocks and benchmark Treasuries again. If stocks manage to rally again, that will apply pressure on mortgage rates to rise off recent two month lows. Adding to our worries are three Treasury auctions this week. The Treasury department will offer up $42billion 2 year notes on Tuesday, $39billion 5 year notes on Wednesday, and $28billion 7 year notes on Thursday. The added supply of debt on the market should pressure Treasury yields to rise in a manner that would attract investors to buy new debt. Strong demand for our nation’s debt at these auctions can help mortgage rates to move lower.

See Rates from Lenders in Your Area

The economic data starts to roll in on Tuesday. First, we get a read on consumer confidence. Since consumer spending accounts for 2/3rds of our economy, market participants are always eager to know how you are feeling. An optimistic consumer is more likely to spend which is good for economic growth and stocks, while a pessimistic consumer is more likely to save which is better for the fixed income sector. Last month’s consumer confidence came in disappointingly low following a few months in a row of improvements. We also get a couple readings on housing prices from S&P Case Shiller and the Federal Housing Finance Agency(FHFA). Significant signs of improvement on home values will continue to pressure MBS lower which increases mortgage rates.

Wednesday we get a couple more readings on the housing sector with the release of the weekly Mortgage Bankers’ Association weekly applications index and New Home sales. Last week ended with very positive data on existing home sales which caused mortgage rates to move higher, so this report can add further confirmation to that trend if it comes in better than expected. We also get the monthly Durable Goods Orders report which gives investors a gauge into how busy manufacturers are going to be in the months ahead. This is a forward looking report, so it can have a major impact on the markets.

On Thursday, Weekly Jobless Claims and a reading on Gross Domestic Product(GDP) will be released. Continuing claims for the past two weeks have moved higher and if this trend continues, market participants will start to question whether the economy is on the rebound. The reading on GDP will be the first revised readings for the second quarter. The initial reading showed that our economy contracted -1.0% last quarter. Since this report is looking at a previous quarter (reporting on growth last quarter), unless it is far from consensus(-1.5%) it shouldn’t have a major impact on the markets.

The week ends with two relatively important reports. The U.S. Department of Commerce will release the Personal Income and Outlays report which gives us a couple significant readings. First will be the income and outlays portion which shows market participants whether people’s income and spending is increasing or decreasing. Increasing income should lead to higher spending, so mortgage rates generally benefit with a lower or decreasing trend. Also included within this report is the Fed’s favorite gauge on inflation with the Personal Consumption Expenditure. All recent reports on inflation are indicating that rising prices are not a concern and this report is expected to confirm that once again. The final report of the week is another measure on how the consumer is feeling with the Consumer Sentiment report. The Income and Outlays data would normally be more significant, but considering the inflation environment, only a big departure from expectations would cause much movement.

For more on the week ahead, click here.

This week we get two different reports on consumer attitudes, I would like to find out how you the reader is feeling. Please share your comments on how you feel about the current economic conditions facing our nation and you specifically. More importantly, what is your outlook on the future. Consumer spending is driven by future expectations of job security and growing incomes. Do you feel secure with your job? Are you confident enough in your own personal situation to make a major purchase or are you continuing to hunker down and improve your balance sheet?

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Early reports from fellow mortgage professionals are indicating that the par 30 year conventional rate mortgage is in the 5.000% to 5.375% range for well qualified consumers. In order to secure a par interest rate you must have a FICO credit score of 740 or higher, a loan to value at 80% or less and pay all closing costs including one point loan origination/discount/broker fee.

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