Mortgage Rates Hard-Hit by Trade Headlines

By: Matthew Graham | Thu, Dec 12 2019, 2:58 PM

Mortgage rates jumped quickly higher today following a series of headlines/tweets regarding the probability of a US/China trade deal ahead of Sunday's tariff deadline. What does all that mean? Let's break it down.

The status of the US/China trade relationship is a big deal for financial markets, including the bond market that dictates interest rates like those for mortgages. The more robust and more certain a trade deal seems, the **worse** it is for rates in general.

This Sunday is a deadline for the implementation of a new round of tariffs. As such, risks are/were high that we would see some sort of announcement to cancel or lessen the tariff burden. As of this morning (and again this afternoon), it looks like that is indeed what is happening. At first, a Trump tweet about the likelihood of a deal set the bad ball in motion. It was followed by a WSJ article citing sources with apparently high levels of specificity as to the details (enough specificity to suggest something was very likely in the works). Now this afternoon, Administration sources confirmed that, saying a **deal is reached with China in principle** and is now only awaiting Trump's sign-off.

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All of the above is adding up to the **worst day for rates** since China said the tariff roll-backs were agreed to in early November. Some borrowers will be seeing rates that are an eighth of a point (0.125%) higher compared to yesterday morning.

Loan Originator Perspectives

Rumors of potential tariff progress spooked bond investors today, sending rates significantly higher. The losses feel like an overreaction to me, but that doesn't really matter. I'm locking loans within 30 days of closing, but doubt today holds the next month's best pricing, so not overly concerned about late January (and beyond) closings. -**Ted Rood, Senior Originator**

Today's Most Prevalent Rates For Top Tier Scenarios

- 30YR FIXED - 3.875%
- FHA/VA - 3.375% - 3.5%
- 15 YEAR FIXED - 3.375%
- 5 YEAR ARMS - 3.25-3.75% depending on the lender

Ongoing Lock/Float Considerations

- 2019 has been the best year for mortgage rates since 2011. Big, long-lasting improvements such as this one are increasingly susceptible to bounces/corrections
- Fed policy and the US/China trade war have been key players. Major updates on either front could cause a volatile reaction in rates
- The Fed and the bond market (which dictates rates) will be watching economic data closely, both at home and abroad, as well as trade war updates. The stronger the data and trade relations, the more rates could rise, while weaker data and trade wars will lead to new long-term lows.
- *Rates discussed refer to the most frequently-quoted, conforming, conventional 30yr fixed rate for top tier borrowers among average to well-priced lenders. The rates generally assume little-to-no origination or discount except as noted when applicable. Rates appearing on this page are "effective rates" that take day-to-day changes in upfront costs into consideration.*

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