



Mid Valley Financial

Mortgage Banker, Since 1985
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Rates Reacted to Jobs Report, But Not Like You'd Expect

Once a month, the government releases the Employment Situation, also known as "the jobs report." No other piece of economic data is as consistently relevant for the bond market and, thus, interest rates.

For most of the past year, the normal correlation between jobs and rates was on hold. That makes sense, of course. Initial lockdowns completely **obliterated** the labor market and we've been waiting to see how it would recover and how it would be reshaped ever since.

In the past 1-2 months, the bond market has finally shown some willingness to react to economic reports. Notably, last month's exceptionally **strong** jobs numbers put obvious **upward** pressure on rates. Because of that, anticipation was high for this week's report.

Indeed, there was a **very big reaction**. Economists were expecting the economy to create nearly 1 million jobs, but the actual number only ended up being 266k! That makes this one of the biggest misses in the history of this report.

Bond yields did the logical thing and moved immediately **lower**, but paradoxically retreated nearly as fast. On the way back up from their lowest levels in months, 10yr yields **tried** to recover, but were met with resistance at 1.53%--the same floor that rejected rally attempts on several occasions in mid April.

The play by play in the last paragraph is confusing, so how about a chart?! The blue line shows intraday movement of 10yr yields. The big vertical drop coincides precisely with 8:30am ET when the report was released.

National Average Mortgage Rates



	Rate	Change	Points
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Mortgage News Daily

30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00

Freddie Mac

30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

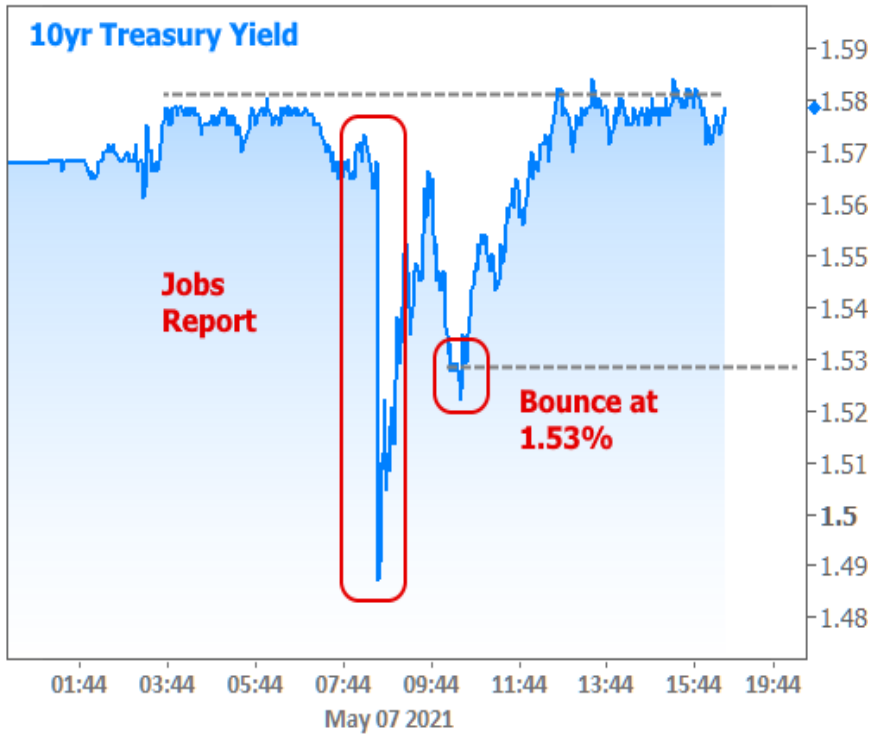
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2267	-0.0112
30 YR Treasury	4.4342	-0.0126

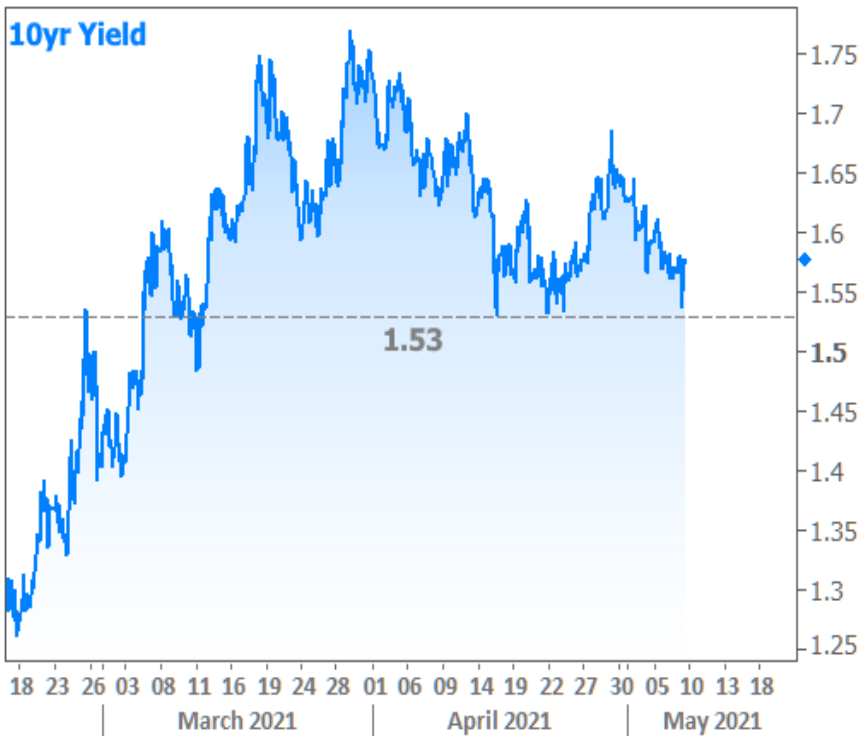
Pricing as of: 7/22 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
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%

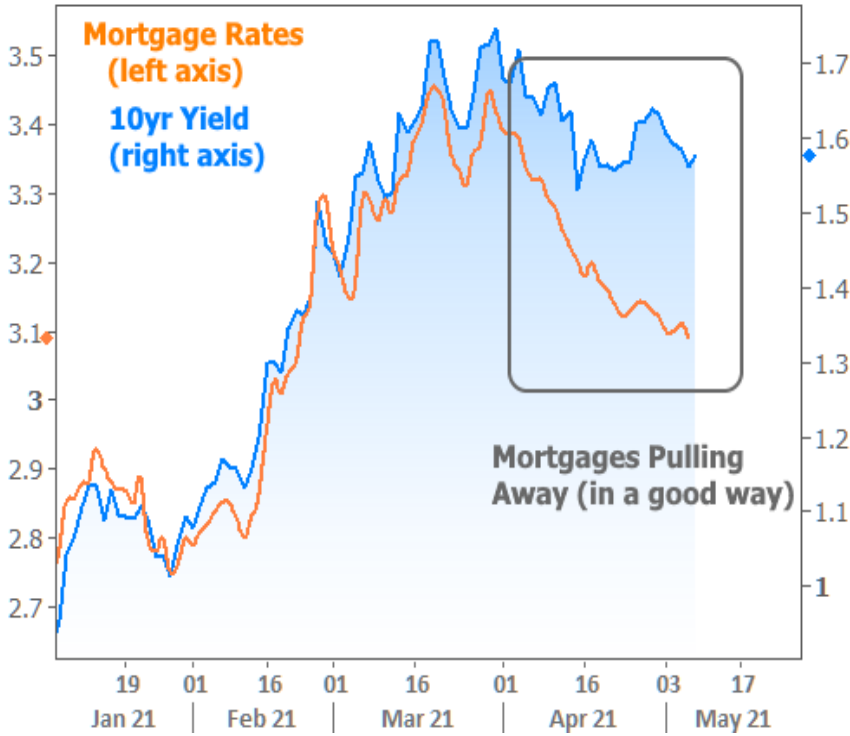


Zooming out a bit, we can see the context for 1.53 (NOTE: the line in the following chart **doesn't** dip below 1.53 because it is an HOURLY chart and yields were back above 1.53 by 9am ET).

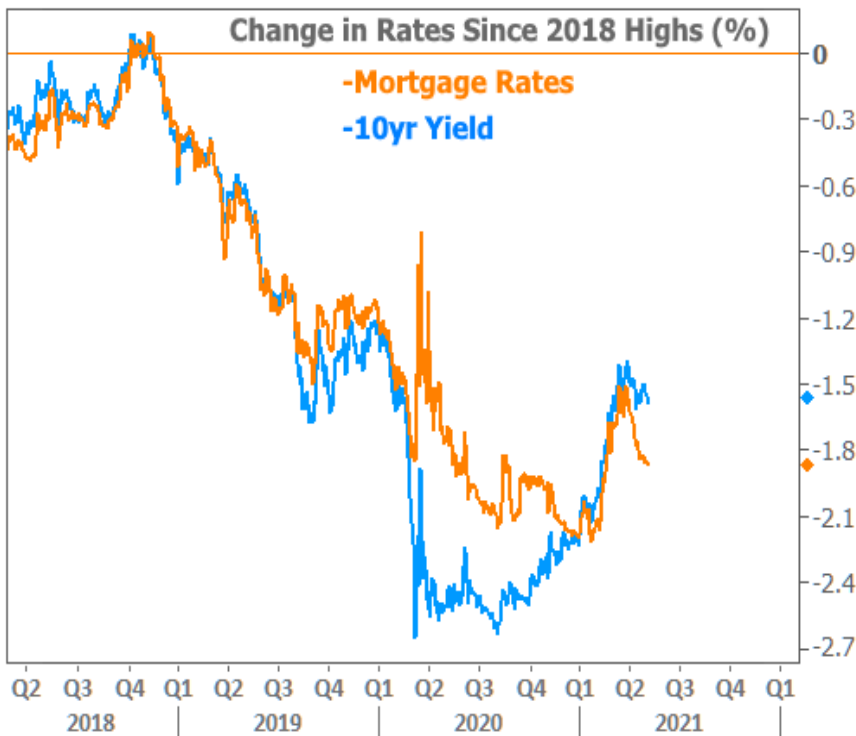


In considering the chart above, one **positive** counterpoint would be the fact that most the week was spent with yields moving lower. The news is even better for mortgage rates which have been able to do even better than their Treasury benchmarks (10yr yields and mortgage rates normally move in relative lock-step).

This has been happening for more than a month as mortgage rates pushed down to their lowest levels since late February.



While this might look like a big departure for mortgage rates, the following chart offers more context. The only important takeaway, however, is that **correlation has largely been restored** after a complete breakdown in 2020, and mortgage rates will have a tough time diverging too much more from Treasuries.

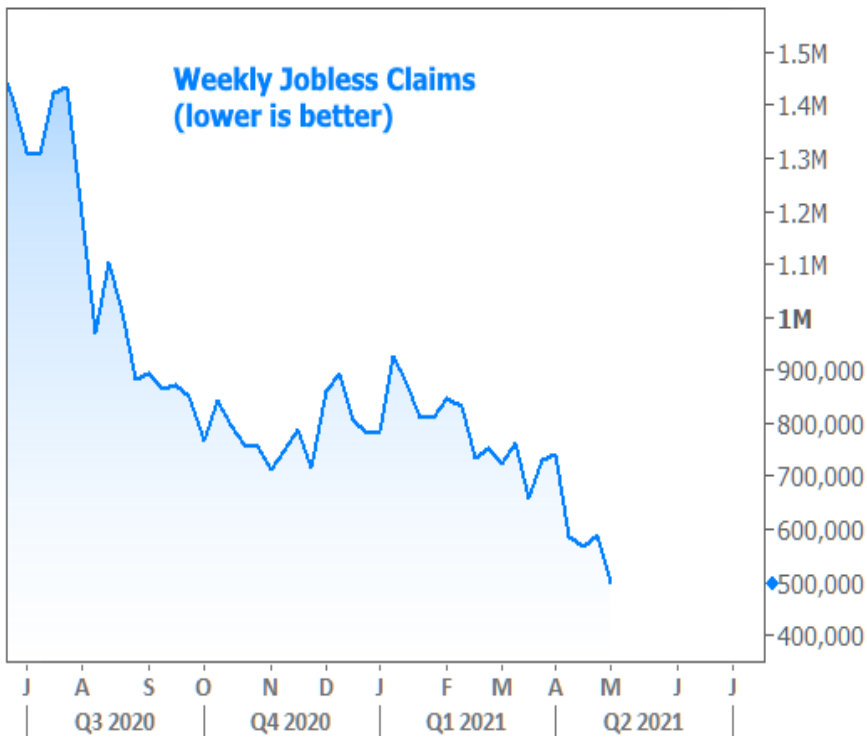


As for the most recent bout of divergence, there are a few esoteric reasons for it. These include things like unprecedented outperformance on the part of mortgage-backed-bonds, the changing shape of the yield curve, and the gradual tightening of mortgage lender margins.

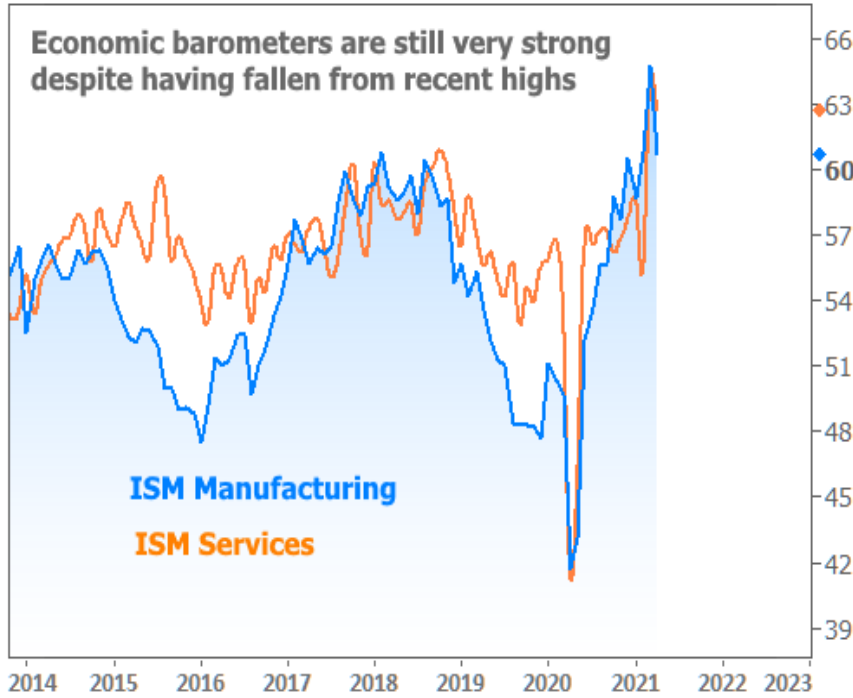
On a simpler note, we can also consider that Treasuries face a few more challenges than mortgage bonds these days. Friday offered a great example of that as administration officials were quick to lean on the jobs data as evidence that the economy still needs support.

Why would that matter for Treasuries? In general, the more **fiscal support** the economy needs, the more Treasuries will need to be issued. Higher Treasury issuance means more Treasury **supply** which, in turn, results in **higher yields**--all other things being equal.

That's **not** to say markets saw it that way. In fact, many market participants simply disregarded jobs number as an outlier in an economic recovery that will continue to produce noisy data. Indeed, this week's other high profile data painted a brighter picture. On the labor market front, weekly Jobless Claims hit a **post-pandemic low**.



In terms of broader economic indicators, the Institute for Supply Management (ISM) released its indices that track the manufacturing and services sectors. While both declined slightly from last month, they landed on levels that are still exceptionally strong.



Next week's primary focus for rates will be on a fresh round of Treasury auctions. Dollar amounts will be the highest ever. These auctions act as an important gauge of investor appetite for bonds. Lackluster demand would mean rates need to rise in order to attract more buyers.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, May 03				
10:00AM	Apr ISM Manufacturing PMI	60.7	65.0	64.7
10:00AM	Mar Construction spending (%)	0.2	1.9	-0.8
Tuesday, May 04				
8:30AM	Mar International trade mm \$ (bl)	-74.4	-74.5	-71.1
9:45AM	Apr ISM-New York index			804.5
10:00AM	Mar Factory orders mm (%)	1.1	1.3	-0.8
Wednesday, May 05				
7:00AM	w/e MBA Purchase Index	274.5		281.4
7:00AM	w/e MBA Refi Index	3188.7		3185.3
8:15AM	Apr ADP National Employment (k)	742	800	517
10:00AM	Apr ISM N-Mfg PMI	62.7	64.3	63.7
Thursday, May 06				
7:30AM	Apr Challenger layoffs (k)	22.913		30.603
8:30AM	Q1 Labor Costs Preliminary (%)	-0.3	-0.8	6.0

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	w/e Jobless Claims (k)	498	500	553
8:30AM	w/e Continued Claims (ml)	3.690	3.640	3.660
Friday, May 07				
8:30AM	Apr Non-farm payrolls (k)	266	978	916
8:30AM	Apr Unemployment rate mm (%)	6.1	5.8	6.0
10:00AM	Mar Wholesale inventories mm (%)	1.3	1.4	1.4
10:00AM	Mar Wholesale sales mm (%)	4.6	1.0	-0.8
3:00PM	Mar Consumer credit (bl)	25.84	20.00	27.58
Tuesday, May 11				
1:00PM	3-Yr Note Auction (bl)	58		
Wednesday, May 12				
7:00AM	w/e MBA Purchase Index	276.7		274.5
7:00AM	w/e MBA Refi Index	3281.0		3188.7
8:30AM	Apr Core CPI (Annual) (%)	3.0	2.3	1.6
Thursday, May 13				
8:30AM	Apr Core Producer Prices YY (%)	4.1	3.7	3.1
Friday, May 14				
8:30AM	Apr Retail Sales (%)	0.0	1.0	9.8
8:30AM	Apr Export prices mm (%)	0.8	0.6	2.1
8:30AM	Apr Import prices mm (%)	0.7	0.6	1.2
9:15AM	Apr Industrial Production (%)	0.7	1.0	1.4
10:00AM	May 1yr Inflation Outlook (%)	4.6		3.4
10:00AM	May 5yr Inflation Outlook (%)	3.1		2.7
10:00AM	May Consumer Sentiment	82.8	90.4	88.3
10:00AM	Mar Business Inventories (%)	0.3	0.3	0.5
Monday, Jul 12				
1:00PM	10-yr Note Auction (bl)	38		
Tuesday, Jul 13				
1:00PM	30-Yr Bond Auction (bl)	24		

Who is Mid Valley Financial?

Mid Valley Financial, located in Fresno, CA, is the Central Valley's premier destination for a wide range of residential and commercial real estate loans. Our commitment to excellence has made us a trusted partner for property buyers and investors seeking tailored financial solutions.

****Why Choose Us:****

With a track record spanning back to our inception in 1985, we have established ourselves as a reliable and innovative lender. We proudly serve properties exclusively within California, having funded loans in all 58 counties of the state. Our deep-rooted experience enables us to navigate complex loan scenarios with expertise and efficiency.

****Our Approach:****

At Mid Valley Financial, we prioritize your financial goals. Whether you're a first-time homebuyer, envisioning your dream property, refinancing an existing mortgage, or looking to tap into your property's equity, our seasoned loan officers offer a wealth of knowledge and over 300 years of collective experience. We ensure that your funds are prepared when you need them, providing a smooth and swift loan process.

****Unlocking Possibilities:****

As one of California's leading direct lenders, we've streamlined the loan process, minimizing obstacles that often deter borrowers. Many of our clients receive approvals within an hour, showcasing our dedication to quick and hassle-free solutions.

****Your Journey with Us:****

Contact the MVF team today and let us put your journey to property ownership on cruise control. Our mission is to empower borrowers while fostering enduring and meaningful relationships. With highly competitive rates, a commitment to transparency, and a dedication to your financial success, Mid Valley Financial is your partner in realizing your real estate aspirations.

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