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Rates Played Chicken With The Fed (And Lost)

Mortgage rates hit 5 month lows last week but quickly jumped to the highest levels in more than a month this week. While last week's strong jobs report certainly served as a catalyst, there's more to the story.

Fortunately, the story is fairly simple. It began in October when rates hit decades-long highs and finally began to make progress back toward lower levels. Inflation had been a pivotal component of the surge and inflation reports were starting to moderate in November and December. Simply put, a rate recovery made good sense.

In fact, lower inflation was desperately anticipated by financial markets. Interest rates, especially, had been on the defensive, waiting for a sign that the worst was over. Q4, 2022 arguably provided that sign, but there were serious questions to be answered about what would come next for rates.

The market began answering those questions in January. Mortgage rates and popular benchmarks like the 10yr Treasury yield had fallen an entire percentage point, but then paused to wait for the green light to drop some more.

Rates were right to be hesitant. By falling as much as they had, they were already playing a dangerous game of chicken with the Federal Reserve. The Fed controls and sets the shortest-term interest rates in an effort to control inflation. The Fed Funds Rate doesn't directly dictate mortgage rates, but changes in the Fed's rate outlook definitely impact mortgage rates. Conversely, a big enough drop in mortgage rates can carry implications for inflation (the thing the Fed is trying to fight by raising short-term rates).

Here's where that game of chicken comes in. The market had been betting that the Fed would be forced to cut short-term rates by the end of 2023 even though Fed members had repeatedly said rates wouldn't top out for a few more months at minimum and then remain at the ceiling for a year or two. The market thought the Fed was bluffing or wrong. Either way, those defiant expectations helped mortgage rates hit 5 month lows last week.

Then the jobs report happened (last Friday). It also happened 2 days after the Fed's latest policy announcement. Markets began to panic. What would the Fed have done if it knew the jobs report would be so strong? Panic was amplified by the fact that Fed Chair Powell was scheduled for an informal Q&A the following Tuesday (February 7th) at the Economics Club of D.C. (a

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.22%	-0.08	0.00
15YR Fixed	6.85%	-0.06	0.00
30YR FHA	6.89%	-0.06	0.00
30YR Jumbo	7.40%	-0.05	0.00
7/6 SOFR	6.73%	+0.02	0.00
30YR VA	6.90%	-0.07	0.00

Rates as of: 11/4

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	100.17	-0.03
10 YR Treasury	4.8870	+0.0016
30 YR Treasury	5.2666	-0.0133

Pricing as of: 11/5 7:12AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

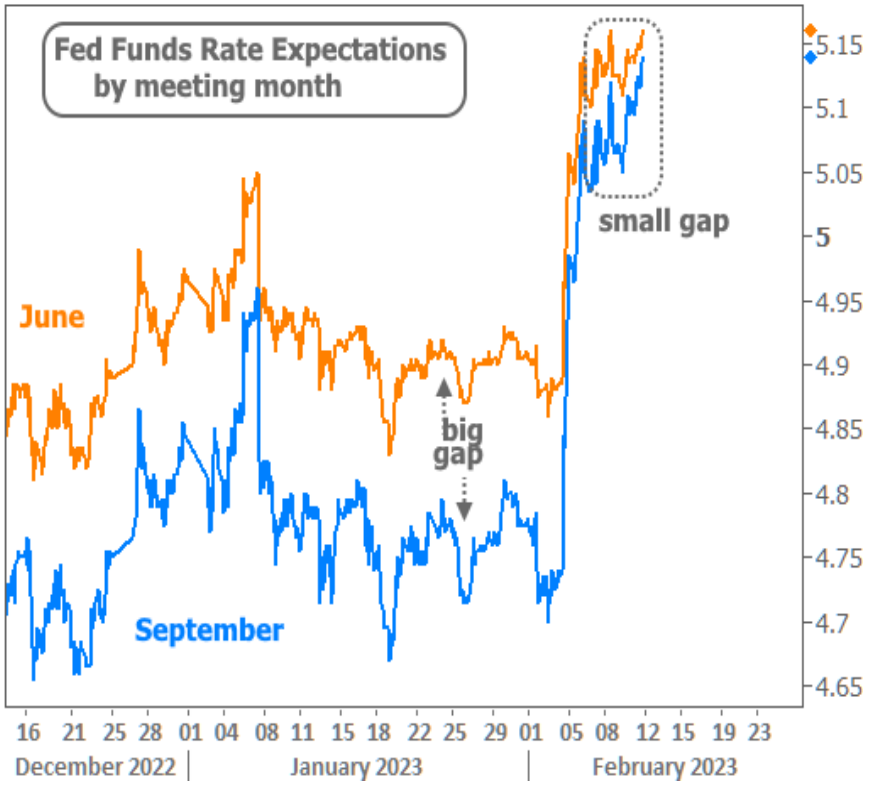
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venue that would surely generate relevant questions).

Even before Powell took the stage, the market was already rethinking its game of chicken. Whereas Septembers Fed Funds Rate had consistently been expected to be lower than June's, traders were quickly beginning to believe it would be unchanged. The following chart shows those expectations over time, both for the June and September Fed meetings. Note the gap that had existed up until this week.



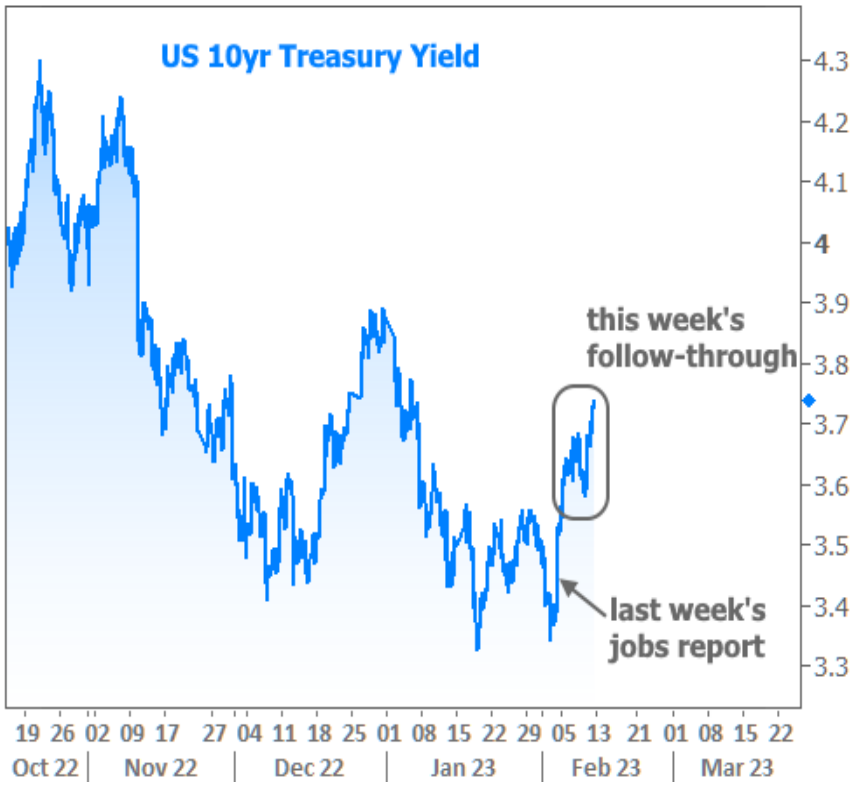
By the time Powell spoke on Tuesday, the market was already admitting defeat. All Powell had to do was say that last week's jobs report is exactly the sort of thing the Fed has in mind when it says inflation may be more persistent than the market thinks and that rates may need to stay higher, longer than the market things.

As the week progressed, additional Fed speakers joined in with similar messages. The net effect has been a quick move off the recent lows for longer-term rates. They're now up to the highest levels in more than a month.

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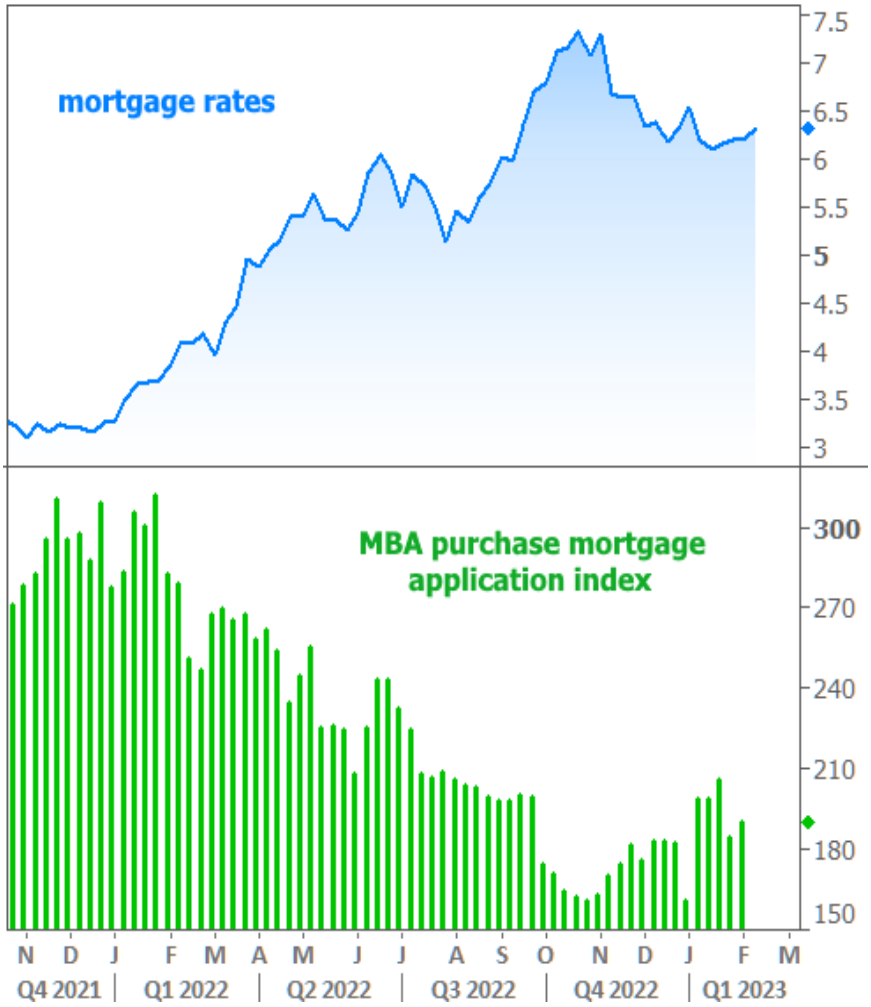


Momentum in mortgage rates has been similar with the average lender up roughly half a percentage point since last Thursday. This has implications for purchase mortgage demand based on the typical correlation seen in the following chart. Specifically, the drop in rates helped bring prospective buyers off the sidelines. It wouldn't be a surprise to see this week's rate spike take a toll on the momentum.

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While the current week has been one of correction and reversal, it's important to know that it doesn't carry an implication for the next move. This week was about the market catching up to the Fed's messaging and giving up a bit of the exuberance it may have felt after identifying what we all hope will prove to be a very long-term top in rates last fall.

Even then, this week's move required economic data to serve as a catalyst. Heading into the coming week, we can expect more of the same. Tuesday's Consumer Price Index (CPI) is the only economic report that could be argued to be more important than last week's jobs report. If inflation falls more than expected, rates should be able to recover back into the recent range. But if inflation comes in much hotter than expected, we could be in for another panicked move higher.

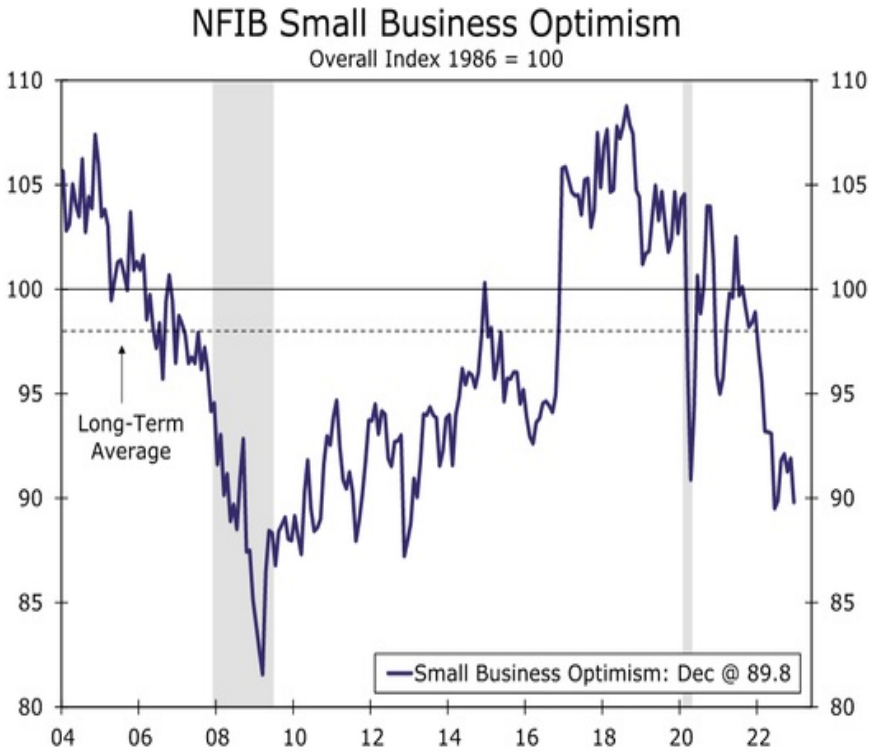
How high? It would take more than one CPI report to get mortgage rates back to last year's long-term highs, but if other economic data was similarly strong, it could only take a week or two in the most dire scenarios.

If the jobs report was so strong, should we worry about other data singing a similar tune? Yes and no. We should be sensitive to the possibility that the economic data measured by government agencies will be different than our individual perceptions of the economy. So many of the answers depend on where you look. For instance, consider another report set to come out on Tuesday: Small Business Optimism.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Feb 07				
8:30AM	Dec Trade Gap (bl)	-67.4	-68.5	-61.5
12:30PM	Powell at Economic Club			
1:00PM	3-Yr Note Auction (bl)	40		
3:00PM	Dec Consumer credit (bl)	+11.56	25.00	27.96
Wednesday, Feb 08				
7:00AM	w/e MBA Purchase Index	190.0		184.3
7:00AM	w/e MBA Refi Index	549.3		466.6
10:00AM	Dec Wholesale inventories mm (%)	0.1	0.1	0.1
Thursday, Feb 09				
8:30AM	w/e Jobless Claims (k)	196	190	183
8:30AM	w/e Continued Claims (ml)	1.688	1.658	1.655
Friday, Feb 10				
10:00AM	Feb 1yr Inflation Outlook (%)	4.2		3.9
10:00AM	Feb 5yr Inflation Outlook (%)	2.9		2.9
10:00AM	Feb Consumer Sentiment	66.4	65.0	64.9
Tuesday, Feb 14				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	Jan y/y CORE CPI (%)	5.6	5.5	5.7
8:30AM	Jan m/m CORE CPI (%)	0.4	0.4	0.3
Wednesday, Feb 15				
7:00AM	w/e MBA Purchase Index	179.6		190.0
7:00AM	w/e MBA Refi Index	480.5		549.3
8:30AM	Jan Retail Sales (%)	3.0	1.8	-1.1
8:30AM	Feb NY Fed Manufacturing	-5.80	-18.00	-32.90
9:15AM	Jan Industrial Production (%)	0.0	0.5	-0.7
10:00AM	Feb NAHB housing market indx	42	37	35
10:00AM	Dec Business Inventories (%)	0.3	0.3	0.4
Thursday, Feb 16				
8:30AM	Jan Core Producer Prices YY (%)	5.4	4.9	5.5
8:30AM	Jan Producer Prices (%)	0.7	0.4	-0.5
8:30AM	Jan House starts mm: change (%)	-4.5		-1.4
8:30AM	Feb Philly Fed Business Index	-24.3	-7.4	-8.9
8:30AM	w/e Jobless Claims (k)	194	200	196
Friday, Feb 17				
10:00AM	Jan Leading index chg mm (%)	-0.3	-0.3	-0.8
Wednesday, Apr 12				
1:00PM	10-yr Note Auction (bl)	32		
Thursday, Apr 13				
1:00PM	30-Yr Bond Auction (bl)	18		
Wednesday, Apr 19				
1:00PM	20-Yr Bond Auction (bl)	12		

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About Me

I'm the Founder & CEO of World Home Loans, a mission-driven mortgage brokerage built with one purpose: to give consumers, especially Veterans, the respect, speed, and savings they deserve when financing a home.

Over the past 2 years, I've personally closed over 600 VA purchase loans and personally funded more than $375M in the past 12 months. Along the way, I learned that America's Veterans are too often underserved by big-box lenders—facing higher rates, slower closings, and a lack of genuine care. That's why I built World Home Loans.

 Our Mission:
• To serve our Veterans by offering ultra-low mortgage rates and closing costs.
• To empower Veterans with the knowledge and resources needed to make informed home financing decisions.
• To stand against and eliminate the widespread overcharging of Veterans that has persisted in the mortgage industry for decades.

At World Home Loans, we back this mission with execution:
 Faster closings (our average is 18 days)
 Better pricing (consistently beating national averages)
 White-glove experience that earns 5-star reviews at scale
 A platform where top producers can 2–3X their volume through efficiency, brand power, and unmatched VA expertise.

With "Victory on the Home Front" as our rallying cry, World Home Loans is on course to become the dominant VA-focused lender in the country.

 Alongside building WHL, I'm writing my book The Efficient Closer: Building a Mortgage Empire with Precision and Purpose—a playbook for originators who want to scale with speed, systems, and execution.

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