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Why The Fed Rate Cut Didn't Help Mortgage Rates This Week

This week's newsletter will be intentionally short in hopes of it being easier to share, read, and digest. It will offer several strategies for understanding the paradoxical disconnect between the Fed Funds Rate and mortgage rates. For those interested in a deeper dive, the past 3 newsletters thoroughly covered it in detail:

Why Fed Day Matters Even Though Mortgage Rates Are Already Lower

Why You Might Regret Waiting For Better Rates After The Fed Cuts

Here's Exactly What a Fed Rate Cut Will Do For Mortgage Rates

Strategy 1: Think of mortgage rates as broadly correlated with the Fed Funds Rate, but with the important ability to adjust for probable changes in the Fed Funds Rate well before the Fed actually cuts/hikes.

Mortgages are based on bonds and bonds can move continually on any business day. Contrast that to the Fed Funds Rate which can only move once every 6 weeks. That means mortgage rates can react to all of the news and data that will eventually lead the Fed to cut rates, which is exactly why mortgage rates have been moving lower recently. Bottom line: the Fed was getting caught up to movement that already took place in the rest of the rate market. In fact, the rest of the rate market is already planning on several more cuts.

Strategy 2: Understand that the Fed Funds Rate is like a 1 day loan whereas the average mortgage lasts a number of years.

Loans with short and long time frames have different rates and can behave differently on any given day. Sometimes, longer term rates like mortgages can move in completely different directions from the shortest-term rates. This wasn't necessarily a major factor this week, but it's another reason for potential disconnects to be aware of.

Strategy 3: Understand that financial markets were already well aware the Fed was going to cut.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.33%	-0.12	0.00
15YR Fixed	6.89%	-0.10	0.00
30YR FHA	6.95%	-0.10	0.00
30YR Jumbo	7.44%	-0.06	0.00
7/6 SOFR	6.81%	-0.19	0.00
30YR VA	6.97%	-0.10	0.00

Rates as of: 11/20

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.40	-0.11
10 YR Treasury	4.9597	+0.0194
30 YR Treasury	5.3313	-0.0011

Pricing as of: 11/23 4:25AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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You may have heard the term "buy the rumor, sell the news." This refers to traders acting upon events that have a high likelihood of playing out as expected (i.e. "buying the rumor"), thus participating in a wave of momentum that makes those trades more and more profitable before ultimately exiting those trades (i.e. "selling the news") when the news finally happens.

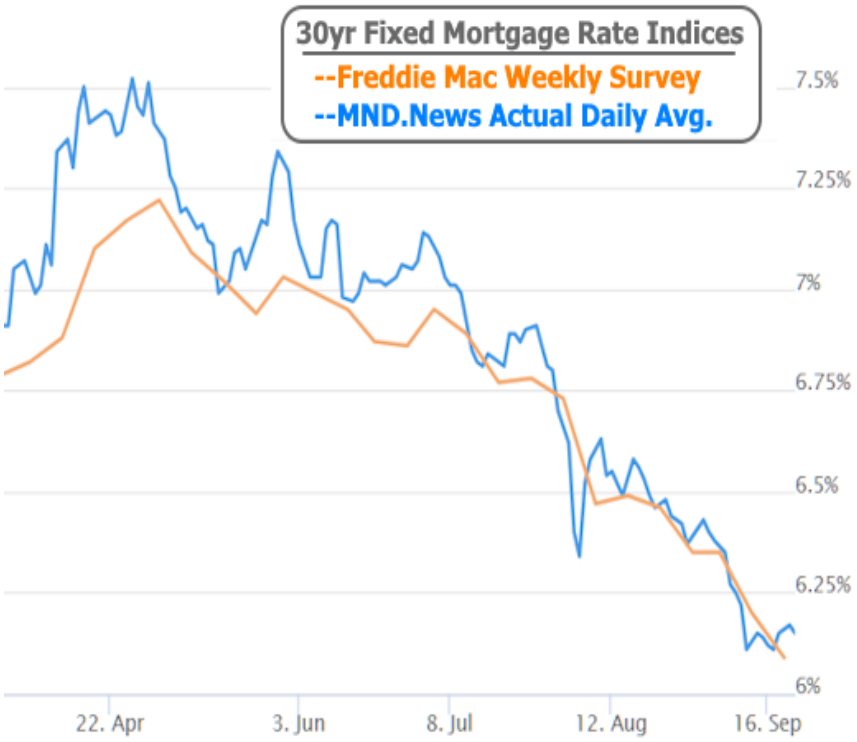
Strategy 4: Consider the nuances in Fed day information.

In addition to the Fed rate cut itself, which was widely assumed, there were other more important aspects of Fed day. These included the member's rate forecasts via the "dot plot" as well as Fed Chair Powell's press conference. The dot plot was actually somewhat beneficial for bonds/rates, but Powell's press conference took things back in the other direction.

Last but not least...

If you happened to see news headlines the day after the Fed announcement that suggested mortgage rates had, in fact, moved significantly lower, it was likely due to Freddie Mac's weekly mortgage rate survey--the one that uses a 5 day average through each Wednesday before being reported on Thursday. As such, Freddie's rate can be very stale compared to daily changes in rates.

It is true that we saw the lowest rates in a year and a half last Thursday and Friday. Some lenders were at the same levels again on the Tuesday before the Fed announcement, but the average moved higher after that.



Even so, rates remain very close to long-term lows with the average lender more than 1.5% below the long-term highs from late 2023. Incidentally, this remarkably similar to amount the Fed expects to cut rates in the coming years... almost as if the mortgage market can get in position for future Fed rate cuts well in advance?

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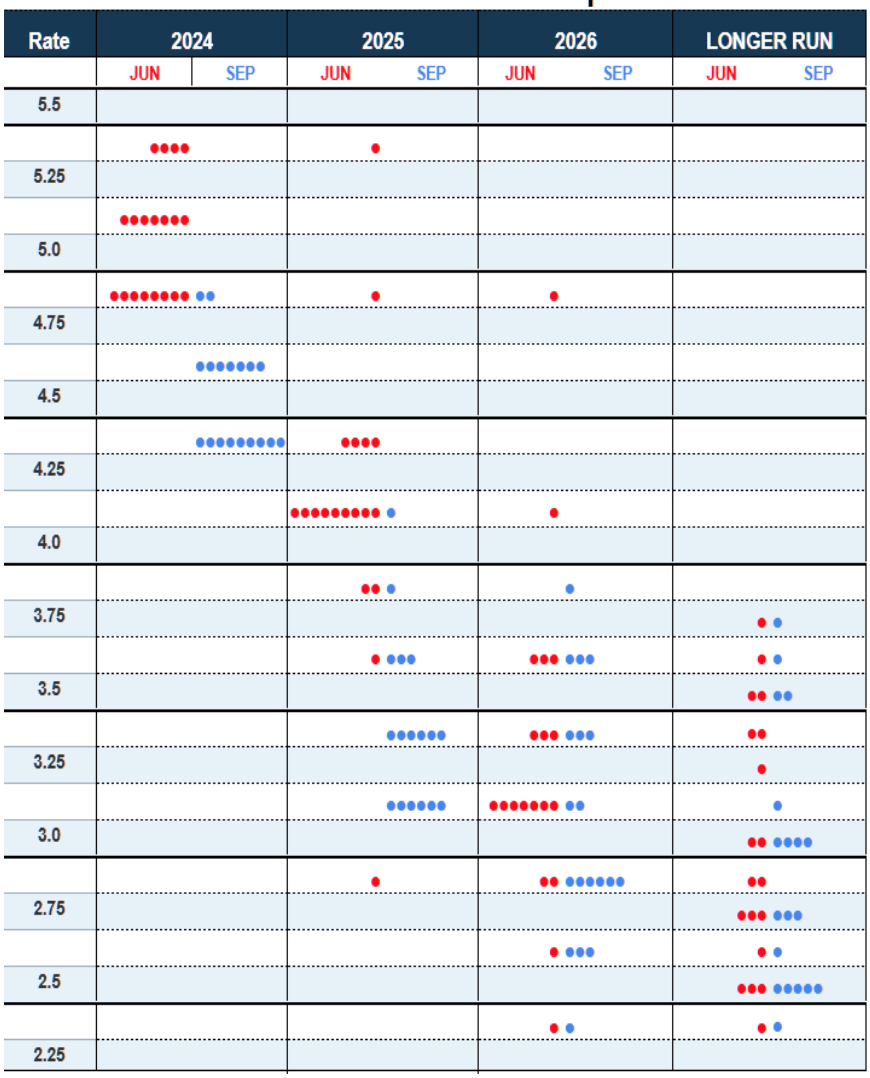
The chart below shows the dot plot from this week's Fed meeting compared to the next most recent dot plot released in June 2024. Blue dots are new. Red dots are old. Note the downward migration. Each dot is one Fed member's outlook:

Before and After Dot Plot Comparison



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Sep 16				
8:30AM	Sep NY Fed Manufacturing	11.5	-3.9	-4.70
Tuesday, Sep 17				
8:30AM	Aug Retail Sales (%)	0.1%	-0.2%	1%
9:15AM	Aug Industrial Production (%)	0.8%	0.2%	-0.6%
10:00AM	Sep NAHB housing market indx	41	40	39
Wednesday, Sep 18				
7:00AM	Sep/13 MBA Refi Index	941.4		757.8

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
7:00AM	Sep/13 MBA Purchase Index	146.1		138.6
8:30AM	Aug Housing starts number mm (ml)	1.356M	1.31M	1.238M
8:30AM	Aug Building permits: number (ml)	1.475M	1.41M	1.406M
2:00PM	FOMC Economic Projections			
2:00PM	Fed Interest Rate Decision	5%	5.25%	5.5%
2:30PM	Fed Press Conference			
Thursday, Sep 19				
8:30AM	Sep/14 Jobless Claims (k)	219K	230K	230K
8:30AM	Sep Philly Fed Business Index	1.7	-1	-7.0
8:30AM	Sep Philly Fed Prices Paid	34.00		24.00
10:00AM	Aug Existing home sales (ml)	3.86M	3.90M	3.95M
Monday, Sep 23				
9:45AM	Sep S&P Global Services PMI	55.4	55.3	55.7
9:45AM	Sep S&P Global Manuf. PMI	47.0	48.5	47.9
Tuesday, Sep 24				
9:00AM	Jul FHFA Home Prices y/y (%)	4.5%		5.1%
9:00AM	Jul Case Shiller Home Prices-20 y/y (%)	5.9%	5.8%	6.5%
10:00AM	Sep CB Consumer Confidence (%)	98.7	103.8	103.3
Wednesday, Sep 25				
10:00AM	Aug New Home Sales (ml)	0.716M	0.70M	0.739M
Thursday, Sep 26				
8:30AM	Q2 Core PCE Prices QoQ Final	2.8%	2.8%	3.7%
8:30AM	Q2 GDP (%)	3%	3%	1.4%
8:30AM	Sep/21 Jobless Claims (k)	218K	225K	219K
9:20AM	Fed Chair Powell Speech			
Friday, Sep 27				
8:30AM	Aug Core PCE (m/m) (%)	0.1%	0.2%	0.2%
8:30AM	Aug Core PCE Inflation (y/y) (%)	2.7%	2.7%	2.6%
10:00AM	Sep Consumer Sentiment (ip)	70.1	69.3	67.9

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