

Tera Lyn Ha'aheoohonua Paleka
Broker In Charge, Hawaii Financial Services, LLC.
HIFIS NMLS#: 1566069
1063 L. Main Street, Ste 221C (LahainaWildfire Temp Space)

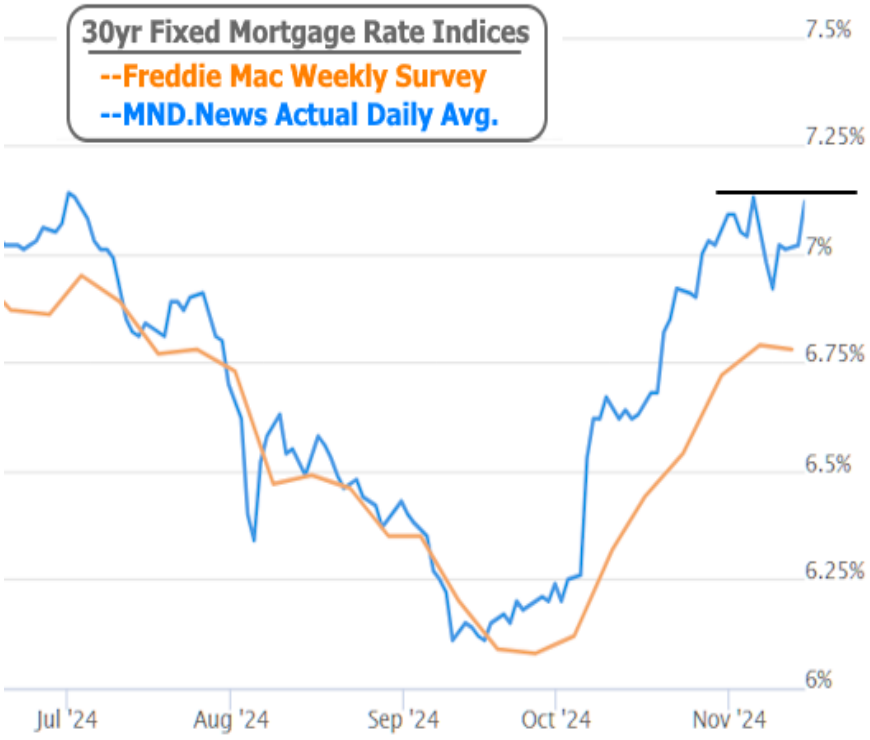
Office: 808-667-5626
Mobile: 808-649-4070
TERA@PALEKA.COM
View My Website

Are Rates Done Freaking Out Yet?

Mortgage rates bounced hard off the long term lows back in September and had jumped almost a full percent by last week. In addition to the elevated levels, there's been plenty of volatility. Nonetheless, rates managed to avoid breaking last week's ceiling--even if only just. Does that mean it's time for hope?

Hope is always a fine thing to have, but it's not a strategy when it comes to mortgage rates. Even if we consider that rates are based on financial markets, caution still makes sense. Some market analysis might suggest this week's ground-holding in rates is indeed a sign of a potential longer-term ceiling, but other analysis suggests an ongoing uptrend. Neither is right or wrong considering the future can never be accurately predicted when it comes to rates.

The mortgage rate chart shows the "lower high" in terms of daily rates.



Because mortgage rates don't change more than a few times a day, we have to look at bonds to track intraday changes. Using the 10yr Treasury yield as a benchmark, we can see the persistent uptrend in yields. Treasury yields tend

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
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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to move in the same direction as mortgage rates with almost perfect correlation.



If we want to hold out hope for rates to move lower, it would help to be able to pin those hopes to objective developments. On that note, all we have are economic reports and inflation. Simply put, inflation would need to move lower and the economy would need to weaken in order to make a case for meaningfully lower rates. None of this week's data supports that case.

That said, this week's data wasn't overly troubling either. The Consumer Price Index (CPI) came in right in line with forecasts earlier this week. Unfortunately, those forecasts weren't low enough for annual inflation to hit its target. We wouldn't have expected an annual target to be hit any time soon, but the fact is that monthly inflation needs to average 0.17-ish in order to hit a 2.0% target, and monthly inflation came in at 0.3% at the core level for the third month in a row.

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The annual chart of inflation makes it seem like progress is stalling, whereas it might be easier to imagine the continuation of a trend toward target levels in the monthly chart. In fact, neither assessment is right or wrong and we're increasingly see the Federal Reserve acknowledge that.

Multiple Fed officials gave speeches and/or participated in Q&A events this week and the tone was markedly different than it was the last time they were out in force. Here are a few highlights, paraphrased:

Fed's Kashkari

- Confident in path of inflation but don't want to declare victory
- May take a year or two to achieve 2% goal
- If inflation surprises to the upside, that could affect rate cut plans

Fed's Schmid

- Remains to be seen how much more the Fed will cut and where rates may settle

Fed's Logan

- Seeing signs that the Fed may not need to cut rates as low as previously thought in order for inflation and job growth to be in balance.

Fed's Musalem

- There's some sense of higher inflation risk and some sense the Fed may not cut rates as much
- Data since the last meeting suggests economy may be stronger than expected

Fed's Powell

- Economy sending signals that we don't need to be in a hurry to cut rates
- Expects inflation to continue toward 2%, but it's a bumpy path

This isn't necessarily surprising from the Fed, but it's definitely a change from where their collective heads were at in September. At that time, we'd just seen a few significantly weaker employment reports and inflation data that was more indicative of gradual improvement. Since then, those weak employment numbers have been revised higher and inflation has ticked up.

The Fed along with the rest of the financial market is waiting to see if the data will show a big of a resurgence of growth and inflation. If that happens, rates could easily continue to move higher. If data softens again, rates have room to recover to lower levels. Either way, the data will be the determining factor--especially the jobs report in early December.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Nov 12				
11:00AM	Oct Consumer Inflation Expectations	2.9%		3%
Wednesday, Nov 13				
7:00AM	Nov/08 MBA Purchase Index	133.3		130.8
7:00AM	Nov/08 MBA Refi Index	506.0		513.5

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	Oct y/y CORE CPI (%)	3.3%	3.3%	3.3%
8:30AM	Oct m/m CORE CPI (%)	0.3%	0.3%	0.3%
Thursday, Nov 14				
8:30AM	Nov/09 Jobless Claims (k)	217K	223K	221K
8:30AM	Oct Core Producer Prices YY (%)	3.1%	3%	2.8%
8:30AM	Oct Core Producer Prices MM (%)	0.3%	0.3%	0.2%
8:30AM	Nov/02 Continued Claims (ml)	1873K	1880K	1892K
Friday, Nov 15				
8:30AM	Oct Retail Sales (%)	0.4%	0.3%	0.4%
8:30AM	Nov NY Fed Manufacturing	31.20	-0.7	-11.90
8:30AM	Oct Import prices mm (%)	0.3%	-0.1%	-0.4%
9:15AM	Oct Industrial Production (%)	-0.3%	-0.3%	-0.3%
Monday, Nov 18				
10:00AM	Nov NAHB housing market indx	46	44	43
Tuesday, Nov 19				
8:30AM	Oct Housing starts number mm (ml)	1.311M	1.33M	1.354M
Thursday, Nov 21				
8:30AM	Nov/16 Jobless Claims (k)	213K	220K	217K
8:30AM	Nov Philly Fed Business Index	-5.5	8	10.3
10:00AM	Oct Existing home sales (ml)	3.96M	3.93M	3.84M
Friday, Nov 22				
9:45AM	Nov S&P Global Services PMI	57.0	55.2	55.0
10:00AM	Nov Consumer Sentiment (ip)	71.8	73.7	70.5

Small But Mighty Locally Owned Mortgage Brokerage in Lahaina Maui Since 2003

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