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# The Dots Put an Exclamation Point on Record-Breaking Drop in Rates

We came into this week expecting the Fed's Dot Plot to set the tone, or at least to create a good amount of movement in rates, and that's exactly what happened.

The dot plot refers to a chart that appears 4 times a year in economic projections released by the Fed. Projections are not the same as predictions, but the dots still provide the market with valuable insight as to how the Fed will change short term interest rates if the economy evolves as expected.

Specifically, the Fed sees job growth generally moderating and inflation gradually falling toward target levels. The dots essentially say "if that stuff keeps happening in the same way it has been happening, here's where we expect the Fed Funds rate to be."

The last dot plot came out with the September Fed meeting. It showed the median rate staying about 0.50% higher than the previous dot plot in June. Rates didn't love that. With support from resilient economic data, the dots were a catalyst for a push up to the highest interest rates in decades by the end of October.

Heading into this week's dot plot, we knew things would look better for rates based on recent Fed speeches and more moderate economic data over the past 2 months, but we didn't know how much better. Here's exactly how things changed for the "end of 2024" time frame most scrutinized by market participants:

## 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 | 99.51 | +0.41 |
| 10 YR Treasury | 4.9403 | -0.1033 |
| 30 YR Treasury | 5.3324 | -0.0738 |

Pricing as of: 11/20 5:59PM EST

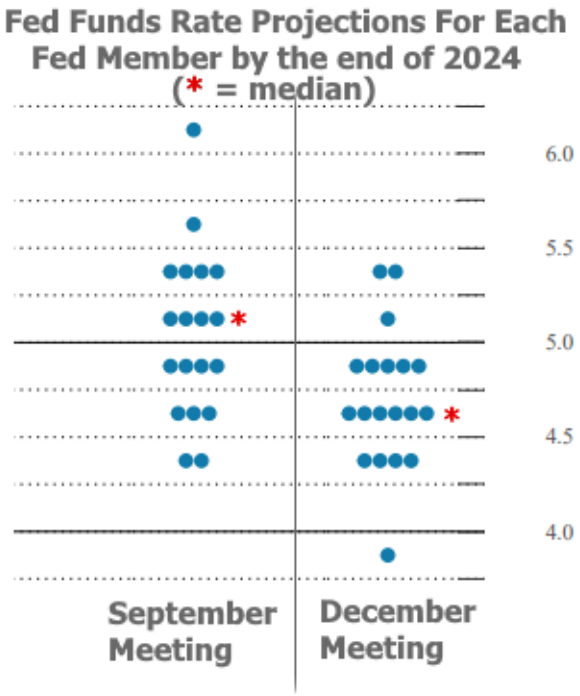
## Recent Housing Data

| | | 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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The median Fed member now sees the Fed Funds Rate at 4.625% by the end of 2024 as opposed to the 5.125% conveyed in September's dot plot. This was clearly better news than the market was expecting because here's what rates did when it came out:

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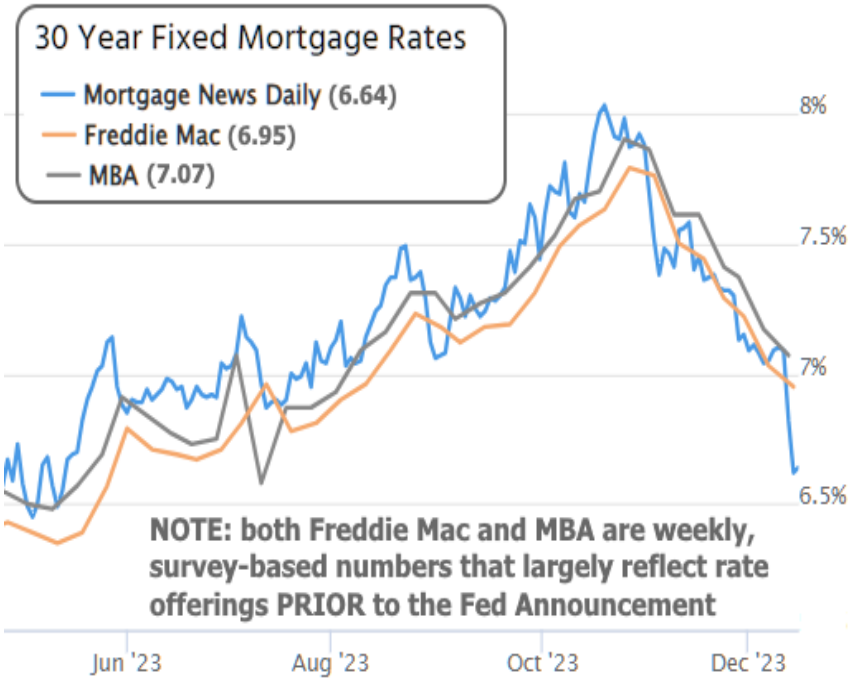



2yr Treasury yields have more in common with near-term Fed Funds Rate expectations while 10yr yields move more like mortgage rates. Speaking of mortgage rates, they had quite a week, although you'd only know it by looking at actual daily averages such as the Mortgage News Daily index as opposed to weekly surveys that don't yet reflect the huge drop in the 2nd half of the week.

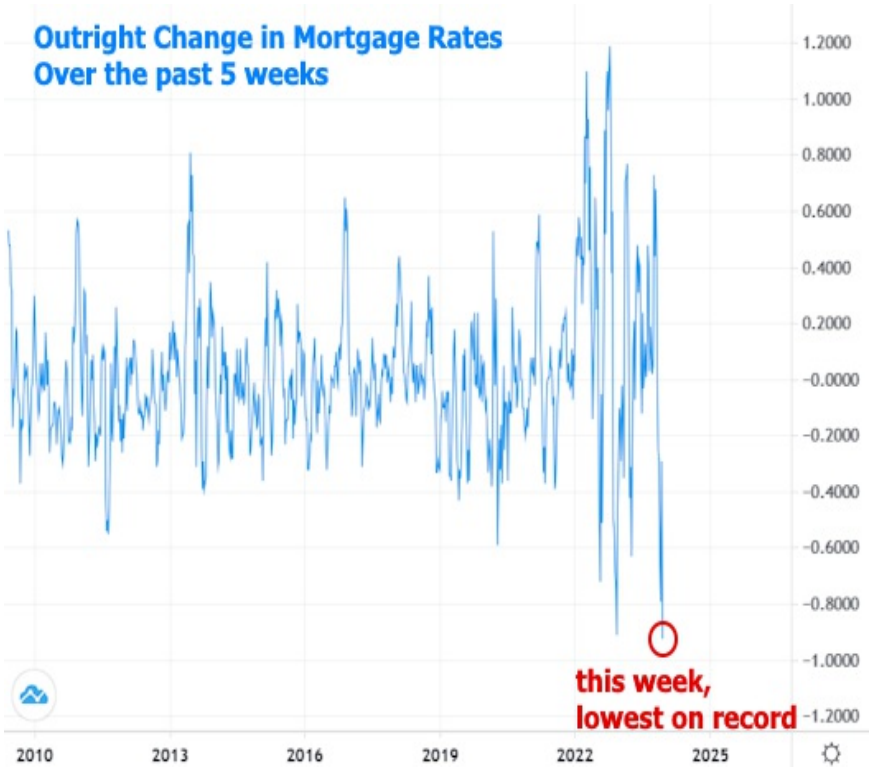
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While Freddie Mac's rate index fell by bigger amounts in the 1980s on a few occasions, this is the biggest 5 week drop on record for the MND index. The following chart shows the 5-week change in rates. In other words, the drop that began in November is the biggest we've seen in decades, even if only slightly bigger than the drop seen last year.




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In addition to the dot plot, Fed Chair Powell mentioned that the Fed had begun to discuss rate cuts. It's important to keep in mind that Powell has also been clear that the Fed could actually hike rates again if inflation were to pick back up. He's also been clear in saying that inflation would need to keep moving lower in order to make rate cuts a reality. As far as this week's Consumer Price Index (CPI) data was concerned, we're on the path, but still far from the destination.




We won't get CPI again until the new year. Moreover, we won't get much by way of other relevant economic data before then either. Combine that with the typical decline in trader participation in late December and it's not unfair to say the jury is pretty much out for the next few weeks. Rates may ebb and flow a bit, but the important decisions are on hold until big-ticket data and more robust participation return after the holiday break.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Dec 11** | | | | |
| 11:30AM | 3-Yr Note Auction (bl) | 50 | | |
| **Tuesday, Dec 12** | | | | |
| 8:30AM | Nov y/y CORE CPI (%) | 4% | 4% | 4% |
| 8:30AM | Nov m/m CORE CPI (%) | 0.3% | 0.3% | 0.2% |

## Event Importance:

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

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# US Housing Market Weekly

December 15, 2023

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Wednesday, Dec 13** | | | | |
| 7:00AM | Dec/08 MBA Purchase Index | 149.6 | | 144.5 |
| 7:00AM | Dec/08 MBA Refi Index | 445.8 | | 373.3 |
| 8:30AM | Nov Core Producer Prices MM (%) | 0% | 0.2% | 0% |
| 8:30AM | Nov Core Producer Prices YY (%) | 2% | 2.2% | 2.4% |
| 2:00PM | Fed Interest Rate Decision | 5.5% | 5.5% | 5.5% |
| 2:00PM | FOMC Economic Projections | | | |
| 2:30PM | Fed Press Conference | | | |
| **Thursday, Dec 14** | | | | |
| 8:30AM | Nov Import prices mm (%) | -0.4% | -0.8% | -0.8% |
| 8:30AM | Dec/09 Jobless Claims (k) | 202K | 220K | 220K |
| 8:30AM | Nov Retail Sales (%) | 0.3% | -0.1% | -0.1% |
| **Friday, Dec 15** | | | | |
| 8:30AM | Dec NY Fed Manufacturing | -14.5 | 2 | 9.1 |
| 9:15AM | Nov Industrial Production (%) | 0.2% | 0.3% | -0.6% |
| 9:45AM | Dec S&P Global Services PMI | 51.3 | 50.6 | 50.8 |
| **Monday, Dec 18** | | | | |
| 10:00AM | Dec NAHB housing market indx | 37 | 36 | 34 |
| **Tuesday, Dec 19** | | | | |
| 8:30AM | Nov Housing starts number mm (ml) | | | 1.372M |
| **Wednesday, Dec 20** | | | | |
| 7:00AM | Dec/15 MBA Refi Index | | | |
| 7:00AM | Dec/15 MBA Purchase Index | 148.7 | | 149.6 |
| 10:00AM | Nov Existing home sales (ml) | 3.82M | 3.77M | 3.79M |
| **Thursday, Dec 21** | | | | |
| 8:30AM | Dec Philly Fed Business Index | -10.5 | -3 | -5.9 |
| 8:30AM | Q3 GDP (%) | 4.9% | 5.2% | 2.1% |
| 8:30AM | Dec/16 Jobless Claims (k) | 205K | 215K | 202K |
| **Friday, Dec 22** | | | | |
| 7:30AM | Nov Building permits: number (ml) | 1.467M | | 1.498M |
| 8:30AM | Nov Core PCE (m/m) (%) | 0.1% | 0.2% | 0.2% |
| 8:30AM | Nov Core PCE Inflation (y/y) (%) | 3.2% | 3.3% | 3.5% |
| 8:30AM | Nov Durable goods (%) | 5.4% | 2.2% | -5.4% |
| 10:00AM | Nov New Home Sales (ml) | 0.59M | 0.685M | 0.679M |
| 10:00AM | Dec U Mich conditions | 73.3 | 74 | 68.3 |
| 10:00AM | Dec Consumer Sentiment (ip) | 69.7 | 69.4 | 61.3 |
| 2:00PM | Christmas Early Close | | | |
| **Wednesday, Jan 10** | | | | |
| 1:00PM | 10-yr Note Auction (bl) | 37 | | |

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Thursday, Jan 11** | | | | |
| 1:00PM | 30-Yr Bond Auction (bl) | 21 | | |
| **Wednesday, Jan 17** | | | | |
| 1:00PM | 20-Yr Bond Auction (bl) | 13 | | |


## RATES ARE COMING DOWN! Email or Call for your new rate.

**Jeffrey Russell** 


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