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# Inflation Data Keeps Low Rate Hopes Alive

The much-anticipated Consumer Price Index (CPI) was released this week. For those seeking evidence that inflation will soon be back at the Fed's target level, it wasn't the triumph it might have been. Even so, rates managed to move lower.

Mortgage rates and, indeed, most rates are determined by trading levels in the bond market. Bond yields/rates move higher when inflation is high, and the market has been waiting on signs of lower inflation before trading in a way that allows interest rates to move lower.

The Consumer Price Index (CPI) is the biggest name in monthly inflation reports. It's caused big reactions in rates many times over the past few years. In recent months, it's been showing more and more promise regarding a return to inflation levels that would allow for significantly lower rates.

But CPI has given false hope before, so traders are wary. This week's report definitely stopped short of providing resounding confirmation that inflation is defeated. That said, it didn't send any signals that were too troubling either.

With that in mind, it's not too surprising that rates actually didn't move much in response to CPI. If anything, the initial impulse was toward slightly higher rates. It wasn't until the following day's Producer Price Index (PPI) that bond traders saw better evidence of calmer inflation. Both CPI and PPI have been moving lower, but PPI is now all the way back down to target levels.

## National Average Mortgage Rates

| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.29% | -0.06 | 0.00 |
| 15YR Fixed | 6.95% | -0.05 | 0.00 |
| 30YR FHA | 6.91% | -0.08 | 0.00 |
| 30YR Jumbo | 7.55% | -0.05 | 0.00 |
| 7/6 SOFR | 6.88% | +0.02 | 0.00 |
| 30YR VA | 6.92% | -0.08 | 0.00 |

Rates as of: 10/29

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.62 | +0.03 |
| 10 YR Treasury | 4.9912 | -0.0253 |
| 30 YR Treasury | 5.3297 | -0.0156 |

Pricing as of: 10/29 2:48PM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 14 | 188.6 | -5.32% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Aug | 684K | +12.69% |
| 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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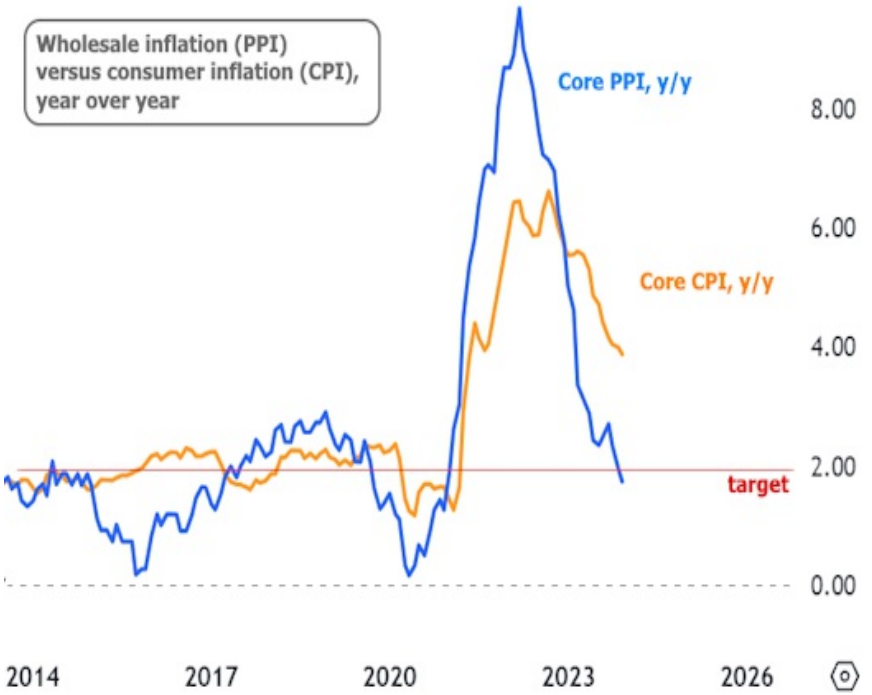


The following chart shows how 10yr Treasury yields (which tend to correlation with mortgage rate movement) were reacting throughout the week:

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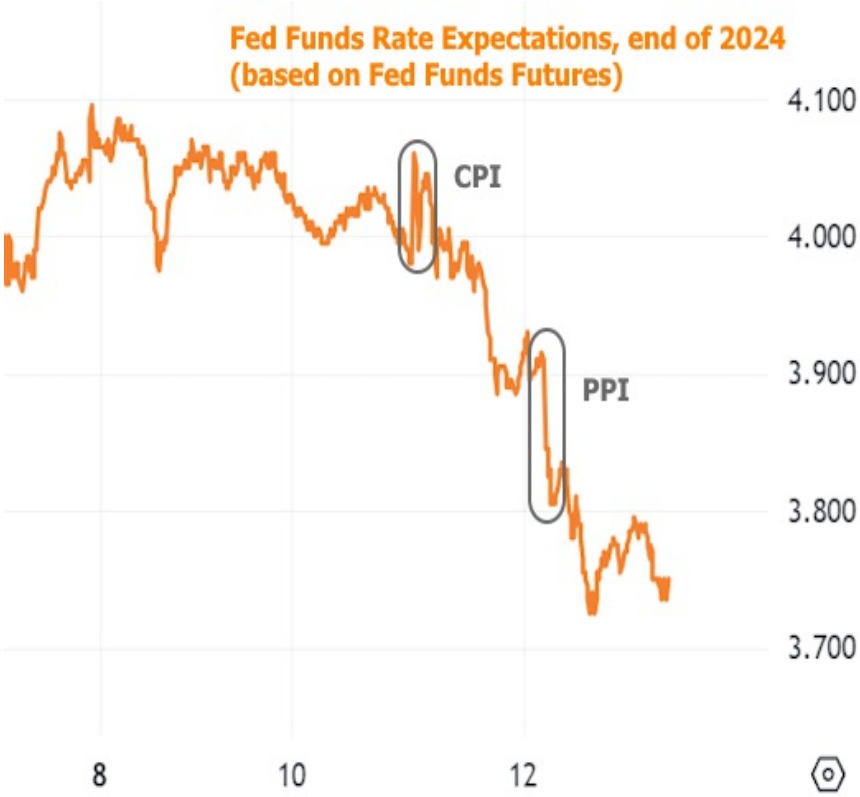
Note the initially bad reaction to CPI. There was a recovery that same afternoon for a variety of potential reasons. At least one of those reasons had to do with speculation that the Fed is still on track to deliver a series of rate cuts this year in addition to making rate-friendly changes to the way it's managing its bond portfolio. Fed policy expectations are even easier to see when we look at actual Fed Funds Rate expectations which are now at the lowest levels since July.




Mortgage rates don't correlate perfectly with Fed Funds Rate expectations (one reason we often advise that a Fed rate cut/hike doesn't mean a mortgage rate cut/hike). As such, they're not back below the recent lows, but they definitely haven't moved much higher. This week's gentle descent means we're continuing to hold a vast majority of the improvement seen in Nov/Dec.

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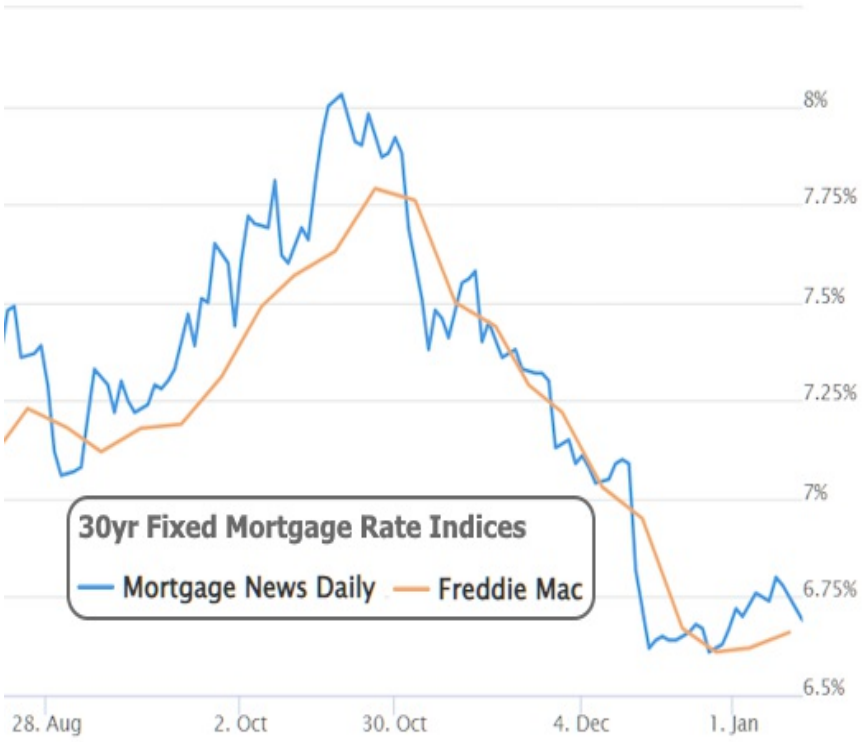


Looking ahead, while next week doesn't have any economic data on the same level as CPI, Wednesday's Retail Sales report can definitely move the needle. It's expected to improve slightly to 0.4% month over month after hitting 0.3% last time.

Beyond the data, we'll hear from several Fed speakers and there's been some speculation that Waller's appearance at the Brookings Institute will bring some important concepts regarding the precursors for friendlier rate policy in 2024. That will happen on Tuesday, which is the first business day of the week next week due to the Martin Luther King Jr. holiday.

While not as much of a factor for interest rates, we'll also get updates on several key housing metrics including new home construction, builder confidence, and Existing Home Sales.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Jan 08** | | | | |
| 3:00PM | Nov Consumer credit (bl) | $23.75B | $9B | $5.13B |
| **Tuesday, Jan 09** | | | | |
| 6:00AM | Dec NFIB Business Optimism Index | 91.9 | 90.7 | 90.6 |
| 10:05AM | Jan IBD economic optimism | 44.7 | 42 | 40 |
| **Wednesday, Jan 10** | | | | |
| 7:00AM | Jan/05 MBA Refi Index | 425.4 | | 358.2 |
| 7:00AM | Jan/05 MBA Purchase Index | 148.6 | | 140.7 |
| 10:00AM | Nov Wholesale inventories mm (%) | -0.2% | -0.2% | -0.4% |
| **Thursday, Jan 11** | | | | |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 8:30AM | Dec y/y CORE CPI (%) | 3.9% | 3.8% | 4% |
| 8:30AM | Dec m/m CORE CPI (%) | 0.3% | 0.3% | 0.3% |
| 8:30AM | Jan/06 Jobless Claims (k) | 202K | 210K | 202K |
| **Friday, Jan 12** | | | | |
| 8:30AM | Dec Core Producer Prices MM (%) | 0% | 0.2% | 0% |
| 8:30AM | Dec Core Producer Prices YY (%) | 1.8% | 1.9% | 2% |
| **Tuesday, Jan 16** | | | | |
| 8:30AM | Jan NY Fed Manufacturing | -43.7 | -5 | -14.5 |
| **Wednesday, Jan 17** | | | | |
| 8:30AM | Dec Retail Sales (%) | 0.6% | 0.4% | 0.3% |
| 9:15AM | Dec Industrial Production (%) | 0.1% | 0% | 0.2% |
| 10:00AM | Jan NAHB housing market indx | 44 | 39 | 37 |
| 10:00AM | Nov Business Inventories (% ) | | | -0.1% |
| **Thursday, Jan 18** | | | | |
| 8:30AM | Dec Building permits: number (ml) | 1.495M | 1.48M | 1.467M |
| 8:30AM | Jan Philly Fed Business Index | -10.6 | -7 | -10.5 |
| 8:30AM | Jan/13 Jobless Claims (k) | 187K | 207K | 202K |
| 8:30AM | Dec Housing starts number mm (ml) | 1.46M | 1.426M | 1.56M |
| **Friday, Jan 19** | | | | |
| 10:00AM | Jan Consumer Sentiment (ip) | 78.8 | 70 | 69.7 |
| 10:00AM | Dec Existing home sales (ml) | 3.78M | 3.82M | 3.82M |


## Your Trusted Home Loan Expert

Experience, knowledge, professionalism, and honesty are the cornerstones of my service. If this is what you are looking for in your Mortgage Loan Originator, then look no further. As a direct lender, Homestead Funding offers loan program options to fit your financial needs. I look forward to helping you understand the qualifications and differences of each. Trust your next home loan to a seasoned expert and contact me today.

**Mark Foley**


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