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## Extremely Risky Week Coming Up For Better or Worse

Tuesday December 13th is the day many people have been waiting for ever since Thursday November 10th. What do those two days have in common? They each mark the monthly release of the Consumer Price Index, the official inflation data responsible for some of 2022's wildest trading days.

Wild trading days aren't just for traders. They have a big impact on mortgage rates, not to mention bigger picture impacts. For instance, if a wild trading day were to ensue from a higher reading on inflation, it would imply more restrictive policies from the Federal Reserve. That's something that can shape entire economic cycles, potentially hastening the recession that some market-watchers expect in 2023.

In the case of December 13th, it makes a lot of sense to worry about the implications for Fed policy. The Fed releases its next statement the very next day! It's a near certainty that the Fed will hike rates by 0.50%, a 0.25% decrease from the last hike in early November. Markets won't be reacting to that as much as the info the Fed publishes alongside the rate hike.

Of specific concern is the proverbial "dot plot." This is a reference to the format of the Fed's forward-looking rate forecasts, published in dot plot format showing each Fed member's thoughts. The "dots," as they're also called, frequently have the biggest impact on financial markets on the days when they come out (only 4 of the 8 Fed meetings per year).

In addition to the dots, the press conference with Fed Chair Powell will provide a venue for the Fed to share the brunt if its reaction to Tuesday's inflation data. Reason being: we can't be sure how many of the Fed members will update their rate outlook for data that comes out on the same day that the Fed begins its meeting. If markets are wondering how well the dots reflect Tuesday's CPI data, Powell may be able to clear it up.

As for this past week's market movement, traders looked for opportunities to react to the inflation data of lesser importance. This was first evident when quarterly labor costs came in much lower than expected on Wednesday. Then on Friday, higher wholesale inflation combined with stronger consumer sentiment to push rates back in the other direction. This can be seen in the chart of 10yr Treasury yields below. The 10yr is the most popular benchmark for longer rates such as mortgages.

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00

### Freddie Mac

30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Rates as of: 6/28

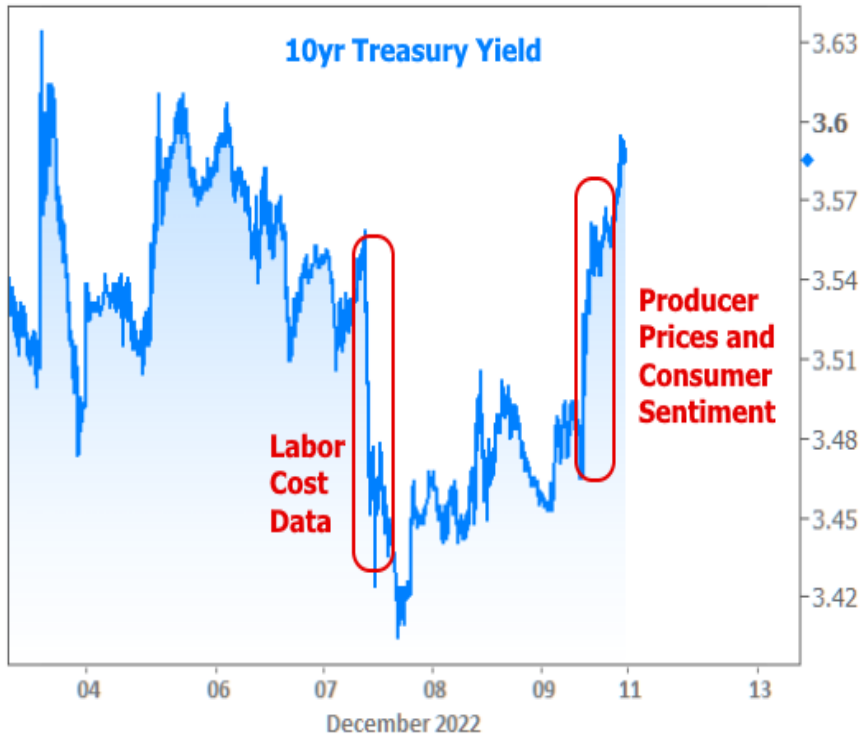
## Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3980	+0.1111
30 YR Treasury	4.5640	+0.1383

Pricing as of: 6/28 5:59PM EST

## Recent Housing Data

		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

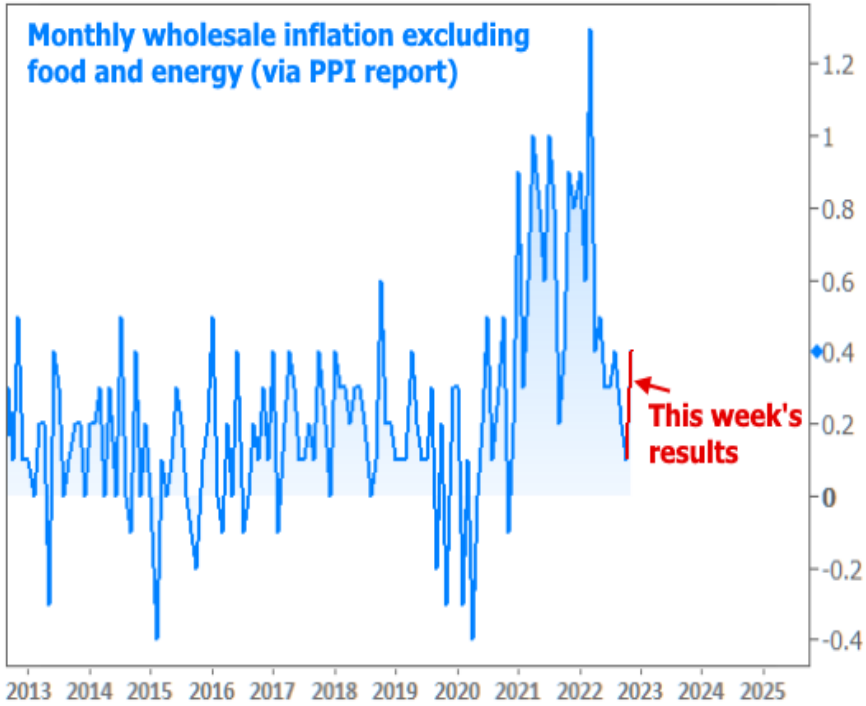


While this may look volatile, it wasn't too dramatic in the bigger picture--a fact that can be easily seen when viewing a chart of average mortgage rates. After falling last Thursday after Powell commented on the potentially smaller rate hike ahead, rates have been very flat against the backdrop of the last CPI report.

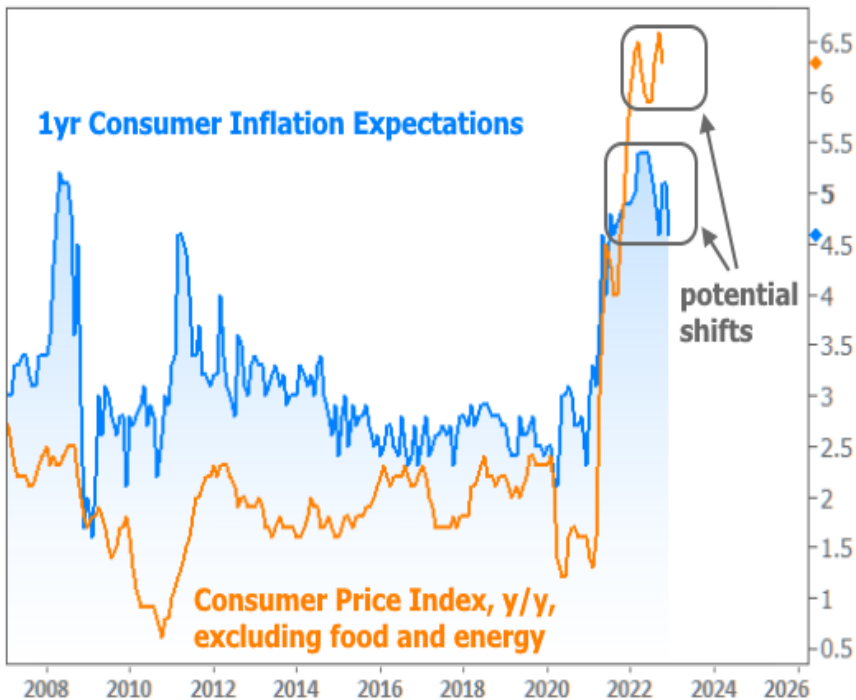
### Average daily 30yr fixed mortgage rates



Rates can be flat because they're waiting for more info, but also when there are mixed signals in the data. Friday offered a good example of mixed signals on inflation specifically. Here's the bounce in producer prices (the "wholesale inflation" mentioned above). It suggests higher-than-expected inflation next week.



But Consumer Sentiment data suggested lower inflation next week. The survey asks consumers for their price outlook over the next year. Friday's results showed a big drop from the previous survey to the lowest levels in 2022. A survey of consumer's thoughts on inflation might seem trivial compared to big ticket economic reports, but this particular data point often tends to foreshadow big picture shifts in inflation momentum. The following chart shows the survey response in blue overlaid with the Core CPI number (THE inflation metric that has the market on the edge of its seat next week).



We can't know whether CPI will come out higher or lower than expected. Forecasters have already honed in on the best guess and markets have already positioned for it. All we can know is that the farther the number falls from those forecasts, the bigger the potential market movement, for better or worse. That means next Tuesday could see 30yr fixed mortgage rates screaming back up toward 7% or falling farther toward 6%. A bit of the reaction may be reserved for the Fed on Wednesday, but between those two days, we have one of our biggest instances of potential volatility in a long time.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Dec 05</b>				
10:00AM	Oct Factory orders mm (%)	1.0	0.7	0.3
10:00AM	Nov ISM N-Mfg PMI	56.5	53.3	54.4
<b>Tuesday, Dec 06</b>				
8:30AM	Oct Trade Gap (bl)	-78.2	-80.0	-73.3
<b>Wednesday, Dec 07</b>				
7:00AM	w/e MBA Refi Index	340.8		325.5
7:00AM	w/e MBA Purchase Index	175.5		181.0
8:30AM	Q3 Labor Costs Revised (%)	2.4	3.1	3.5
<b>Thursday, Dec 08</b>				
8:30AM	w/e Jobless Claims (k)	230	230	225
<b>Friday, Dec 09</b>				
8:30AM	Nov Producer Prices (%)	0.3	0.2	0.2
8:30AM	Nov Core Producer Prices YY (%)	6.2	5.9	6.7
10:00AM	Dec 1yr Inflation Outlook (%)	4.6		4.9
10:00AM	Dec Consumer Sentiment	59.1	56.9	56.8
<b>Monday, Dec 12</b>				
11:30AM	3-Yr Note Auction (bl)	40		
<b>Tuesday, Dec 13</b>				
8:30AM	Nov m/m Headline CPI (%)	0.1	0.3	0.4
8:30AM	Nov m/m CORE CPI (%)	0.2	0.3	0.3
8:30AM	Nov y/y CORE CPI (%)	6.0	6.1	6.3
8:30AM	Nov y/y Headline CPI (%)	7.1	7.3	7.7
<b>Wednesday, Dec 14</b>				
7:00AM	w/e MBA Purchase Index	182.6		175.5
7:00AM	w/e MBA Refi Index	350.5		340.8
8:30AM	Nov Import prices mm (%)	-0.6	-0.5	-0.2
8:30AM	Nov Export prices mm (%)	-0.3	-0.4	-0.3
2:00PM	N/A FOMC rate decision (%)	4.250 - 4.500	4.375	3.875

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
<b>Thursday, Dec 15</b>				
7:00AM	Bank of England Announcement			
7:45AM	ECB Statement (Press Conf. 830am)			
8:30AM	Nov Retail Sales (%)	-0.6	-0.1	1.3
8:30AM	Dec Philly Fed Business Index	-13.8	-10.0	-19.4
8:30AM	Dec NY Fed Manufacturing	-11.2	-1.00	4.50
8:30AM	w/e Jobless Claims (k)	211	230	230
9:15AM	Nov Industrial Production (%)	-0.2	0.1	-0.1
10:00AM	Oct Business Inventories (%)	0.3	0.4	0.4
<b>Friday, Dec 16</b>				
9:45AM	Dec Markit Composite PMI	44.6	47.0	46.4
<b>Wednesday, Jan 11</b>				
1:00PM	10-yr Note Auction (bl)	32		
<b>Thursday, Jan 12</b>				
1:00PM	30-Yr Bond Auction (bl)	18		

## Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the ONLY objection we ever hear is "your rates sound too good to be true". Well they're not, and here is why...

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It's simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It's just a lie that the big box mortgage companies have been telling you for years. Don't believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

Mike Baker

