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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



	Rate	Change	Points
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Mortgage News Daily

30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00

Freddie Mac

30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

Market Data

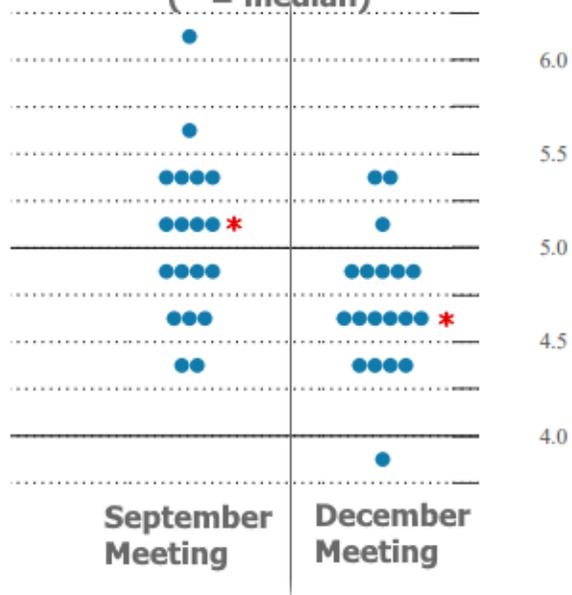
	Price / Yield	Change
MBS UMBS 5.5	99.30	-0.10
MBS GNMA 5.5	99.71	-0.06
10 YR Treasury	4.2711	+0.0332
30 YR Treasury	4.4861	+0.0393

Pricing as of: 7/22 12:47PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
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%

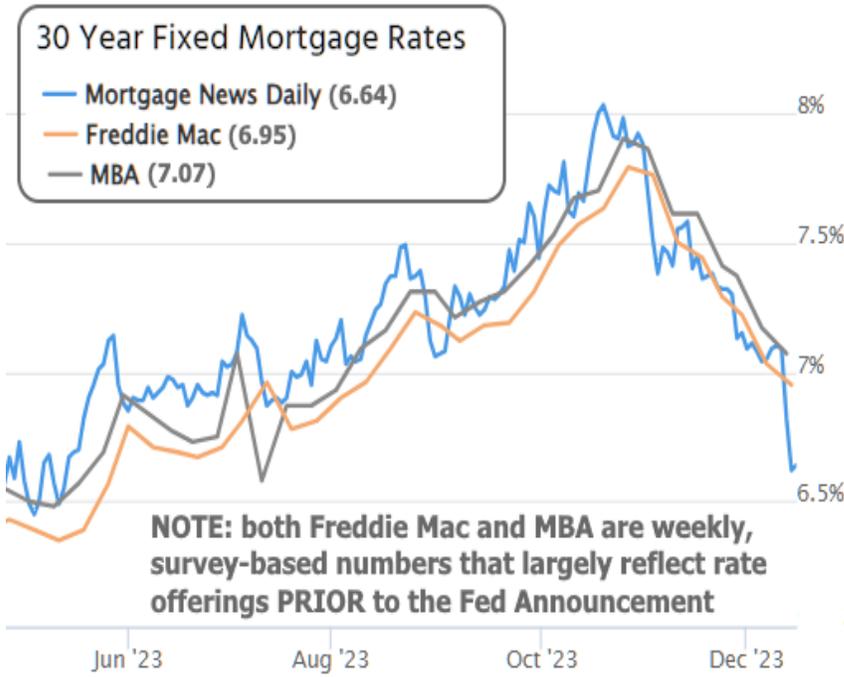
Fed Funds Rate Projections For Each Fed Member by the end of 2024
 (* = median)



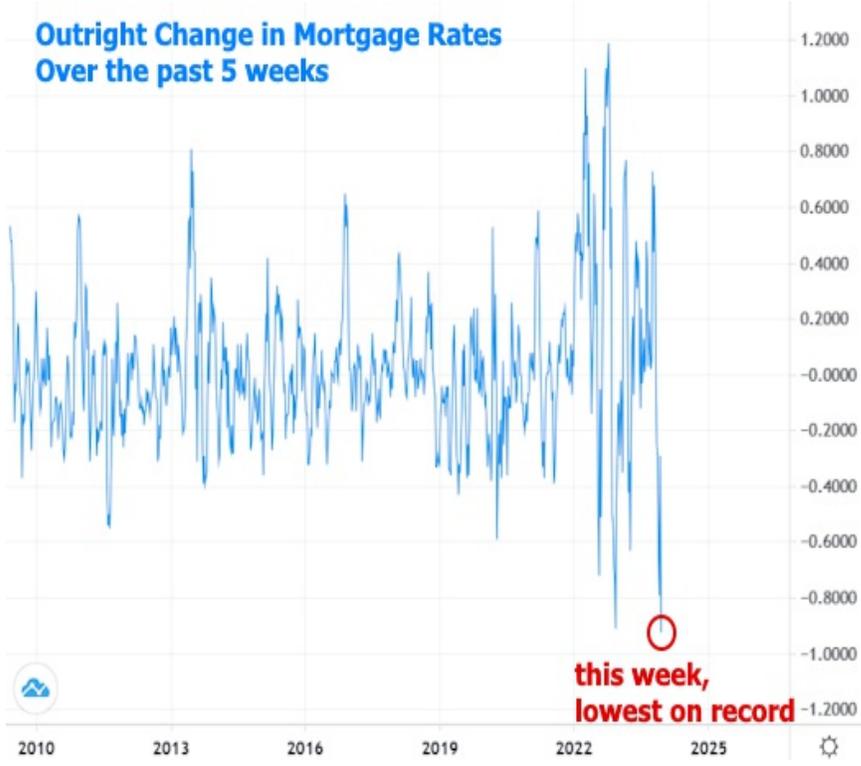
The median Fed member now sees the Fed Funds Rate at 4.625% by the end of 2024 as opposed to the 5.125% conveyed in September's dot plot. This was clearly better news than the market was expecting because here's what rates did when it came out:



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.



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.



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

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		

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		

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form – whether the documents are readable and understandable – and content – whether they are fair to homebuyers.

- the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
- the right to terminate the contract
- the disclosure that compensation is negotiable
- the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
- that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
- that the commission is due only if there is a successful closing
- that buyers have an obligation – for no longer than 60 days, CFA recommends – to pay a broker who earlier showed them a home they purchased after the contract ended
- seller concessions paid directly to buyers
- dual agency not pre-approved by the contract
- an explanation of how a broker treats different buyer clients interested in the same property
- that buyers should not be required to first go through mediation or arbitration if they have a complaint

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