

THE FEDERAL SAVINGS BANK



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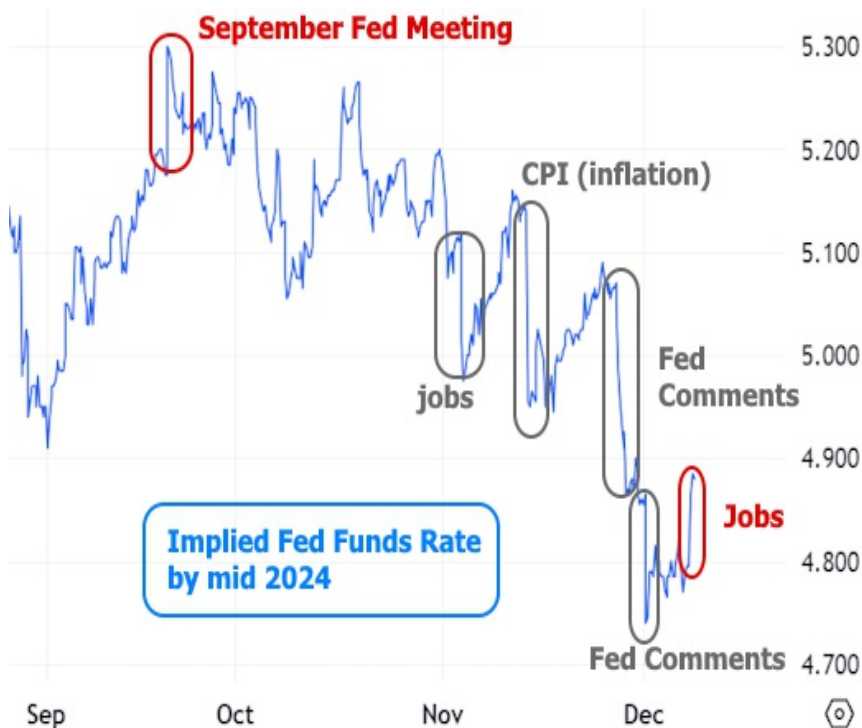
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## What's at Stake With Next Week's Fed Announcement and Inflation Data?

It was mostly a great week for mortgage rates with the average lender near the best levels in months through Thursday. Friday's jobs report pushed rates back up a bit, but not excessively. Next week's two big ticket events could set the tone for the rest of the year. Ultimately, that's exactly what's at stake.

Is it melodramatic to say that the scheduled events in a 48 hour window could set the tone for the rest of the year? Not at all, actually. Rates have been reliably reacting to the same set of inputs for months and if this past week is any indication, it doesn't show signs of stopping.

We can observe these reactions in both long and short term rates. The shortest-term rate is that set by the Fed itself. Since the market is certain the Fed Funds Rate won't change for at least several months, let's take a look at the futures contract that estimates the June 2024 level. The chart shows the same categories of events (Fed communications, jobs, and inflation) having the biggest impacts.



Let's zoom in to focus on this week's movement specifically. There were two key reports that generated both movement and volume: Job Openings on

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			

30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00

### Freddie Mac

30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00

Rates as of: 5/17

## Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.40	-0.15
MBS GNMA 6.0	100.78	+0.04
10 YR Treasury	4.4188	-0.0035
30 YR Treasury	4.5620	+0.0010

Pricing as of: 5/20 3:54AM EST

## Recent Housing Data

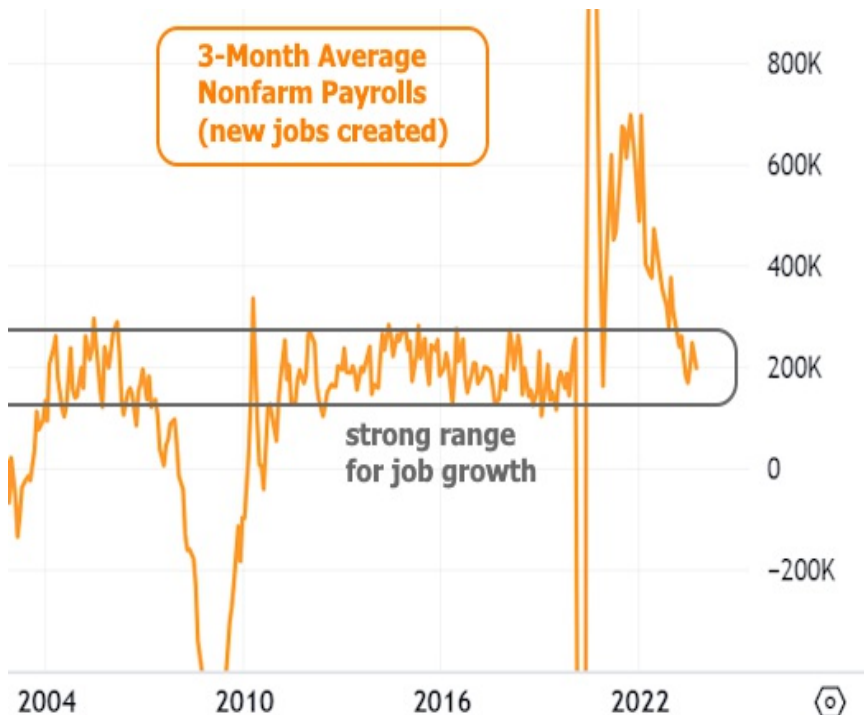
		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

Tuesday and the big jobs report on Friday.

Job openings remain historically high, but have been moving in a rate-friendly direction. The Fed wants to see the labor market cool off a bit or it worries that inflation will be harder to control. That's why this week's job openings data helped rates move lower.



Despite being in line with historical levels, Friday's nonfarm payrolls (a count of new jobs created or lost) made a different case.



You can't tell by looking at the chart, but payrolls came in higher than expected. The unemployment rate was also lower than expected. Neither are good for rates, but the reaction wasn't extreme as far as longer-term rates (like 10yr Treasury yields) were concerned.



Mortgage rates also moved a hair higher, but are still effectively in line with their best levels in months.



If we zoom out on the Treasury chart in a similar manner, Friday's yield spike also looks like no big deal in the bigger picture. It's more of an afterthought in the process of erasing the losses seen after the Fed spooked the rate market at the September meeting.



That brings us full circle with next week's Fed meeting. The Fed's September announcement spooked the bond market due to the proverbial "DOTS." This refers to the dot plot the Fed uses to convey its quarterly forecast for the general path of the Fed Funds Rate.

September's dots showed the Fed holding the Fed Funds Rate "higher for longer"--a likelihood that financial markets adjusted to by the end of October. November and early December have seen traders pull back on their Fed rate expectations.

The timing is important because next Wednesday is the first new dot plot since September 20th. Traders hope/expect to see a more measured outlook versus spooky September. They'll almost certainly get it, but the question is HOW much more measured.

The Fed may not even know their final answers to the dot plot questions at this point. Some of the dots could be changing right up to the buzzer due to the timing of the Consumer Price Index (CPI) which comes out just over 24 hours before the Fed announcement.

CPI has been moving in the right direction, but we need to see a few more months of progress before the Fed would truly be in a position to consider rate cuts. If Tuesday's example shows good progress, some of the Fed's thought process may end up in the dot plot on Wednesday. Rates may have a volatile response to either event.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Dec 04				

Event Importance:

No Stars = Insignificant  
★ Low

Date	Event	Actual	Forecast	Prior
10:00AM	Oct Factory orders mm (%)	-3.6%	-2.8%	2.8%
<b>Tuesday, Dec 05</b>				
9:45AM	Nov S&P Global Services PMI	50.8	50.8	50.6
10:00AM	Nov ISM N-Mfg PMI	52.7	52	51.8
10:00AM	Oct USA JOLTS Job Openings	8.733M	9.3M	9.553M
<b>Wednesday, Dec 06</b>				
7:00AM	Dec/01 MBA Refi Index	373.3		327.8
7:00AM	Dec/01 MBA Purchase Index	144.5		144.9
8:15AM	Nov ADP jobs (k)	103K	130K	113K
8:30AM	Q3 Unit Labour Costs QoQ Final	-1.2%	-0.9%	3.2%
<b>Thursday, Dec 07</b>				
8:30AM	Dec/02 Jobless Claims (k)	220K	222K	218K
<b>Friday, Dec 08</b>				
8:30AM	Nov Average earnings mm (%)	0.4%	0.3%	0.2%
8:30AM	Nov Non Farm Payrolls	199K	180K	150K
8:30AM	Nov Unemployment rate mm (%)	3.7%	3.9%	3.9%
10:00AM	Dec Sentiment: 1y Inflation (%)	3.1%		4.5%
10:00AM	Dec Consumer Sentiment (ip)	69.4	62	61.3
<b>Monday, Dec 11</b>				
11:30AM	3-Yr Note Auction (bl)	50		
<b>Tuesday, Dec 12</b>				
8:30AM	Nov y/y CORE CPI (%)	4%	4%	4%
8:30AM	Nov m/m CORE CPI (%)	0.3%	0.3%	0.2%
1:00PM	30-Year Bond Auction	4.344%		4.769%
<b>Wednesday, Dec 13</b>				
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			
<b>Thursday, Dec 14</b>				
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%
<b>Friday, Dec 15</b>				
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
<b>Wednesday, Jan 10</b>				
1:00PM	10-yr Note Auction (bl)	37		

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
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## Responsive service, experienced expertise

I've dedicated my 22 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

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