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# Fed Will Cut Next Week, But They're Not Cutting Mortgage Rates

Mortgage rates spent 5 out of 5 days moving higher this week. Frustratingly, the damage wasn't readily linked to normal motivations like stronger economic data or higher inflation. It served as a reminder that rates can move for reasons that transcend easy explanations.

One of the easiest and most blatantly incorrect explanations for mortgage rate movement is that it has something to do with Fed rate cuts/hikes. The Fed Funds rate and mortgage rates only reliably move in the same direction over very long time horizons. Over practical time frames for most mortgage borrowers, however, it can be very dangerous to expect such a correlation.

Back in September, we spent several weeks warning about the possibility that mortgage rates could rise even as people were waiting for the Fed to cut. This time around, the set-up is a bit different, but caveats remain.

To reiterate: the Fed does NOT set mortgage rates and the Fed Funds Rate does not necessarily move in the same direction as mortgage rates over short periods of time.

In fact, because the Fed only meets 8 times a year, the Fed's rate is typically perfectly flat for 6 weeks in a row. All the while, mortgage rates are free to experience as much volatility as they like.

To understand this, simply consider that rates are based on loans (debt/borrowing/lending on all scales) and there are many different variables that can impact loans. The simplest is the length of time in which a certain loan must be repaid. For most mortgages, it's up to 30 years with the average mortgage lasting between **5 and 10 years**.

For the loans based on the Fed Funds Rate, **it's less than 24 hours**.

Simply put, investors have different ideas about what the rate should be for multi-year lending versus overnight lending.

Now, forget the "why" and let's just look at how this has played out in the past year. The following chart shows the Fed Funds Rate (the thing the Fed is about to cut again) in blue and average mortgage rates in orange.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.27% | **0.00** | 0.00 |
| 15YR Fixed | 6.92% | **0.00** | 0.00 |
| 30YR FHA | 6.91% | **+0.01** | 0.00 |
| 30YR Jumbo | 7.52% | **-0.03** | 0.00 |
| 7/6 SOFR | 6.70% | **-0.08** | 0.00 |
| 30YR VA | 6.92% | **+0.01** | 0.00 |

Rates as of: 11/2

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.83 | **-0.03** |
| 10 YR Treasury | 4.9249 | **+0.0201** |
| 30 YR Treasury | 5.3007 | **+0.0112** |

Pricing as of: 11/3 9:33AM EST

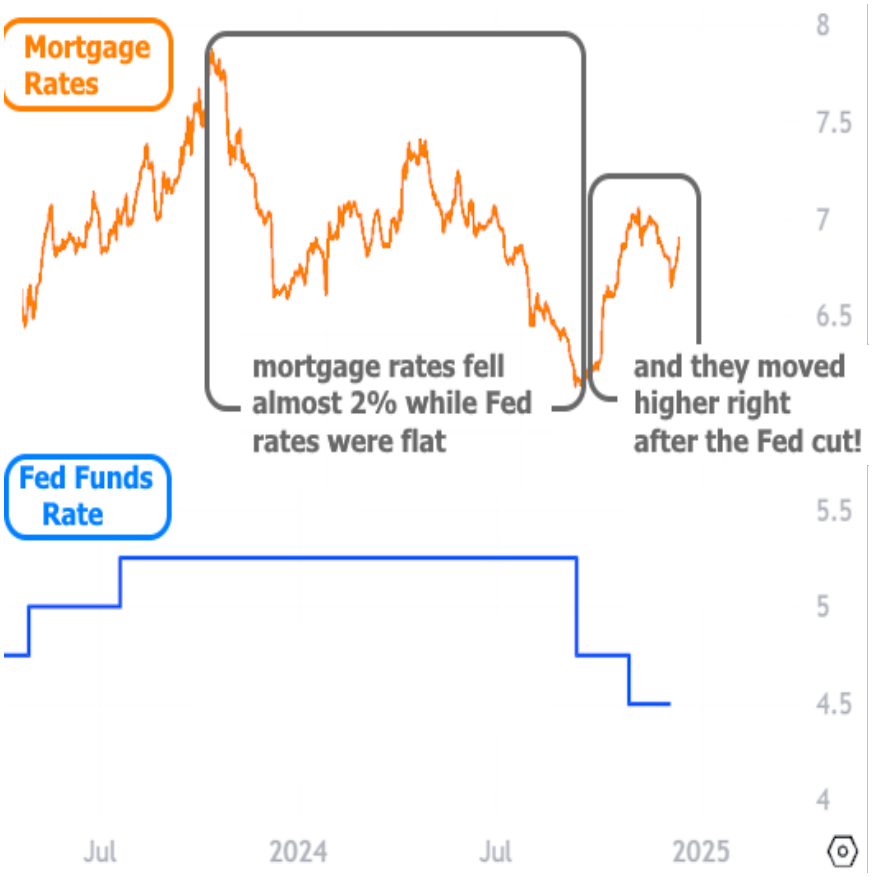
## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 21 | 195 | +3.39% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Sep | 676K | -1.17% |
| 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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To reiterate, mortgage rates dropped by nearly 2% without any help from the Fed Funds Rate! More importantly, it was literally the same day of the September rate cut that mortgage rates began moving HIGHER from their long term lows.

To be clear, this is not a prediction about the upcoming week. It's just a reminder that there are no guarantees about mortgage rates. The market already knows the Fed will cut. If anything on Fed day ends up having an impact on mortgage rates, it would have to be changes in the Fed's rate outlook and/or comments from Fed Chair Powell during the press conference that follows the rate announcement.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Wednesday, Dec 11** | | | | |
| 7:00AM | Dec/06 MBA Purchase Index | 154.9 | | 161.5 |
| 7:00AM | Dec/06 MBA Refi Index | 634 | | 498.5 |
| 8:30AM | Nov y/y CORE CPI (%) | 3.3% | 3.3% | 3.3% |
| 8:30AM | Nov m/m CORE CPI (%) | 0.3% | 0.3% | 0.3% |
| **Thursday, Dec 12** | | | | |
| 8:30AM | Nov Core Producer Prices MM (%) | 0.2% | 0.2% | 0.3% |
| 8:30AM | Nov Core Producer Prices YY (%) | 3.4% | 3.2% | 3.1% |
| 8:30AM | Dec/07 Jobless Claims (k) | 242K | 220K | 224K |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Friday, Dec 13** | | | | |
| 8:30AM | Nov Import prices mm (%) | 0.1% | -0.2% | 0.3% |
| 8:30AM | Nov Export prices mm (%) | 0% | -0.2% | 0.8% |
| **Monday, Dec 16** | | | | |
| 8:30AM | Dec NY Fed Manufacturing | 0.20 | 12 | 31.20 |
| 9:45AM | Dec S&P Global Services PMI | 58.5 | 55.7 | 56.1 |
| **Tuesday, Dec 17** | | | | |
| 8:30AM | Nov Retail Sales (%) | 0.7% | 0.5% | 0.4% |
| 9:15AM | Nov Industrial Production (%) | -0.1% | 0.3% | -0.3% |
| 10:00AM | Dec NAHB housing market indx | 46 | 47 | 46 |
| 10:00AM | Oct Business Inventories (% ) | 0.1% | 0.1% | 0.1% |
| **Wednesday, Dec 18** | | | | |
| 8:30AM | Nov Building permits: number (ml) | 1.505M | 1.43M | 1.419M |
| 8:30AM | Nov Housing starts number mm (ml) | 1.289M | 1.34M | 1.311M |
| 2:00PM | Fed Interest Rate Decision | 4.5% | 4.5% | 4.75% |
| 2:00PM | FOMC Economic Projections | | | |
| 2:30PM | Fed Press Conference | | | |
| **Thursday, Dec 19** | | | | |
| 8:30AM | Q3 GDP (%) | 3.1% | 2.8% | 3% |
| 8:30AM | Dec/14 Jobless Claims (k) | 220K | 230K | 242K |
| 8:30AM | Dec Philly Fed Business Index | -16.4 | 3 | -5.5 |
| 10:00AM | Nov Existing home sales (ml) | 4.15M | 4.07M | 3.96M |
| **Friday, Dec 20** | | | | |
| 8:30AM | Nov Core PCE Inflation (y/y) (%) | 2.8% | 2.9% | 2.8% |
| 8:30AM | Nov Core PCE (m/m) (%) | 0.1% | 0.2% | 0.3% |

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# Welcome to Elite Mortgage!

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Our Unique Boutique Mortgage Experience combines elite licensed mortgage professionals, incomparable service, a full array of mortgage products with the most competitive rates in the industry. At Elite Mortgage you're a client, not a number!

We know that each customer has specific needs, so we strive to meet those specific needs with a wide array of products, investment tools, mortgages and best of all quality service and individual attention.

Today's technology is providing a more productive environment to work in. For example, through our website, you can submit a complete on-line, secure loan application or pre-qualify for a home loan. You may also evaluate your different financing options by using our interactive calculators and going over various mortgage scenarios.

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