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Good News on Inflation, But Don't Expect a Fed Rate Cut

The juxtaposition of last week's jobs report and this week's Consumer Price Index (CPI) created a fair amount of volatility, but for fans of low mortgage rates, it's too soon to care.

Whether we're talking about interest rates in general or the Federal Reserve, both are sensitive to any major changes in the economy and inflation. Among economic data, last week's jobs report is the most capable of causing volatility, pound for pound. This week's CPI is the most capable among the several monthly inflation reports.

As we discussed last week, the jobs report was strong enough to push rates instantly (but only moderately) higher. This week's CPI served as a bit of a foil, showing a much lower number than expected. In annual terms, inflation is still not quite back to target levels whether we're looking at the headline number or the core (which excludes food and energy).



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

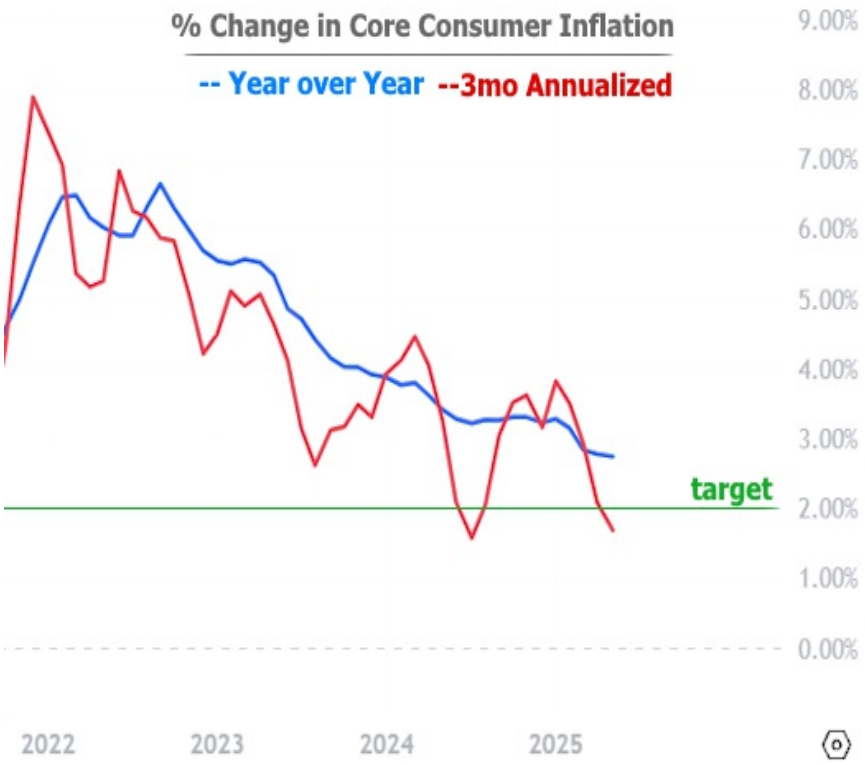
		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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But if inflation were to continue at the exact same pace seen over the last 3 months, core CPI (seen as a better indication of underlying trends than the more volatile "headline" CPI) is tracking at below-target levels.



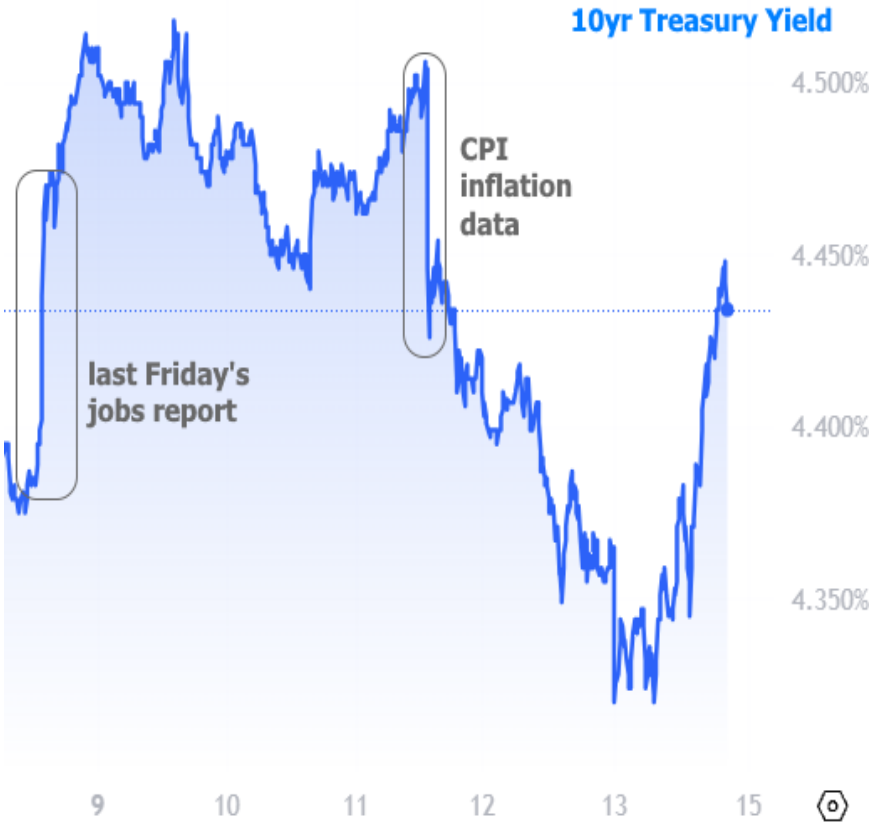
Interest rates are determined by the bond market, so we can watch bonds (like the 10yr Treasury) fluctuate moment by moment to see the implied reaction in rates. Bonds are generally planning on waiting to see if there's any additional inflation in the data after tariff/trade policies are finalized.

That means near term inflation data would be taken with a grain of salt, but this report was enough of a surprise to elicit a response. Taken together with the week's other data, it was enough to briefly fully erase the damage done by last week's jobs report.

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The inflation data was so refreshing, in fact, that the market began to entertain an accelerated timeline for the next rate cut from the Fed. Conveniently, there are futures contracts that allow traders to bet on the Fed Funds Rate at various points in the future. Expectations for December 2025 were obviously impacted.

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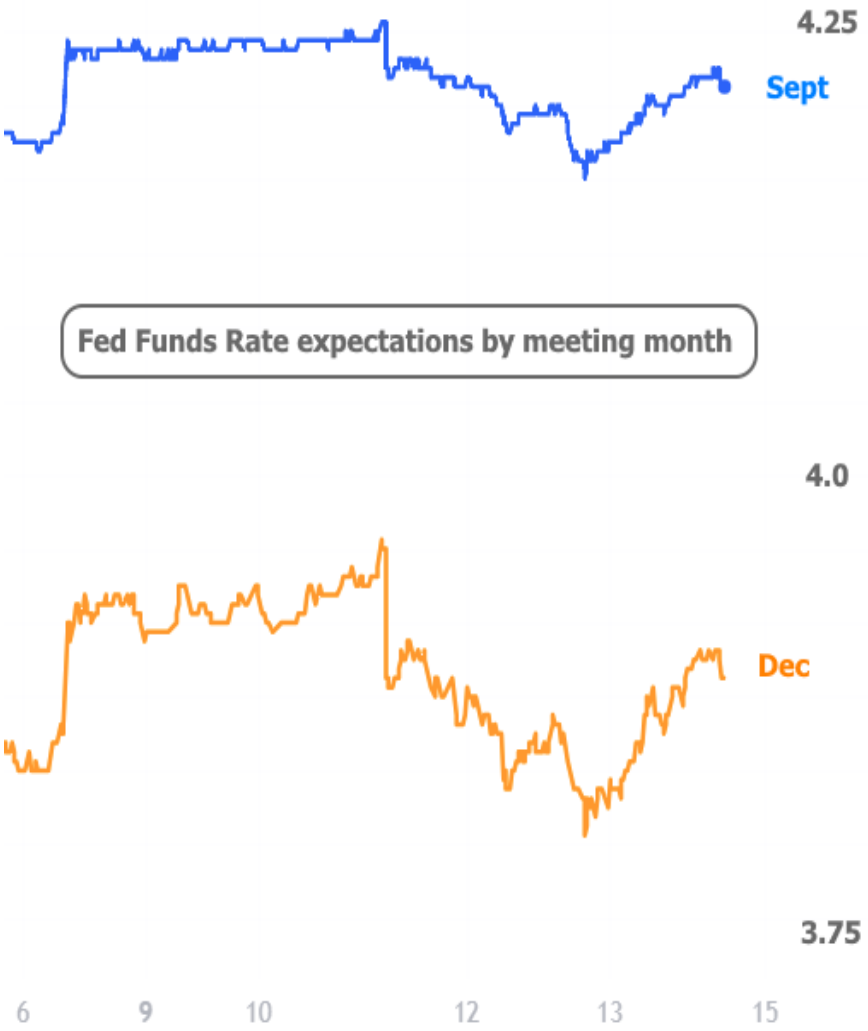


But perspective is important. Not only does the chart above pertain to the December Fed meeting, it is also a fairly narrow range in the bigger picture. If we merely add the September Fed meeting to the chart, we can see how much narrower the range looks. We can also see how much less of a reaction there was in September's expectations.

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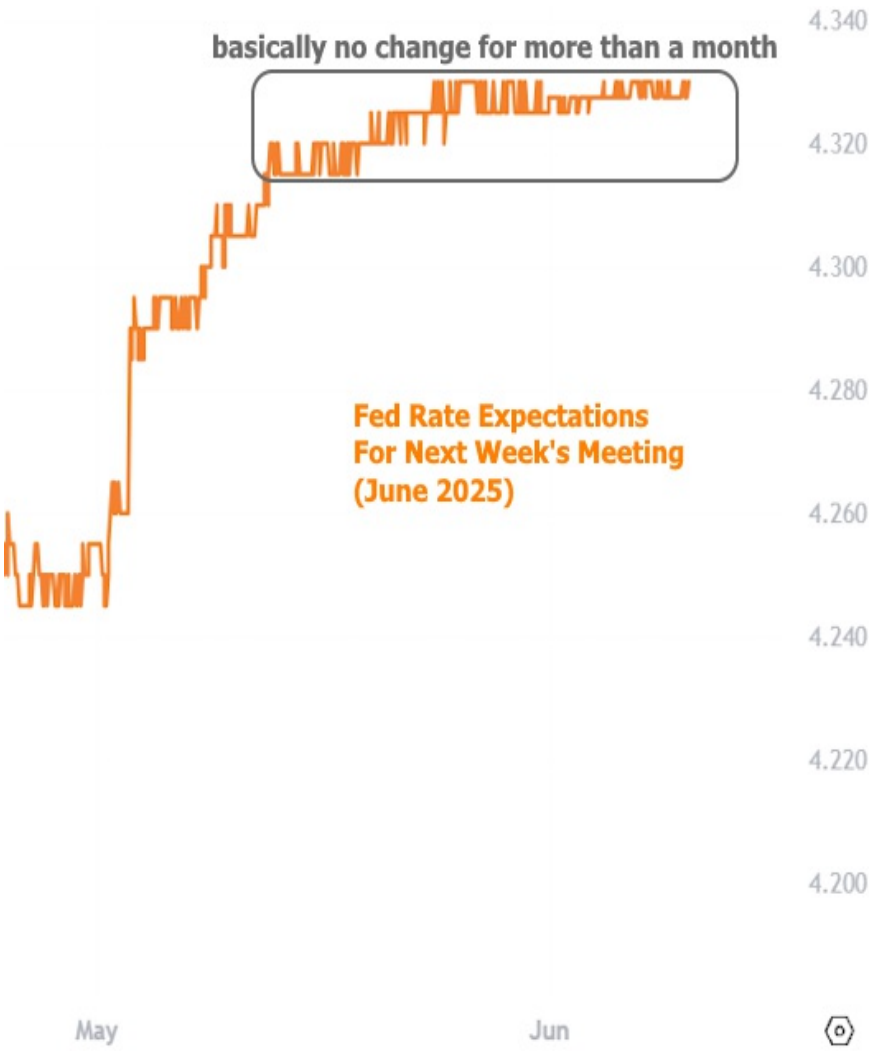


So what happens if we examine the current meeting month? There's not really a point, it's been almost perfectly flat in the "no chance of a rate hike" camp since the beginning of May.

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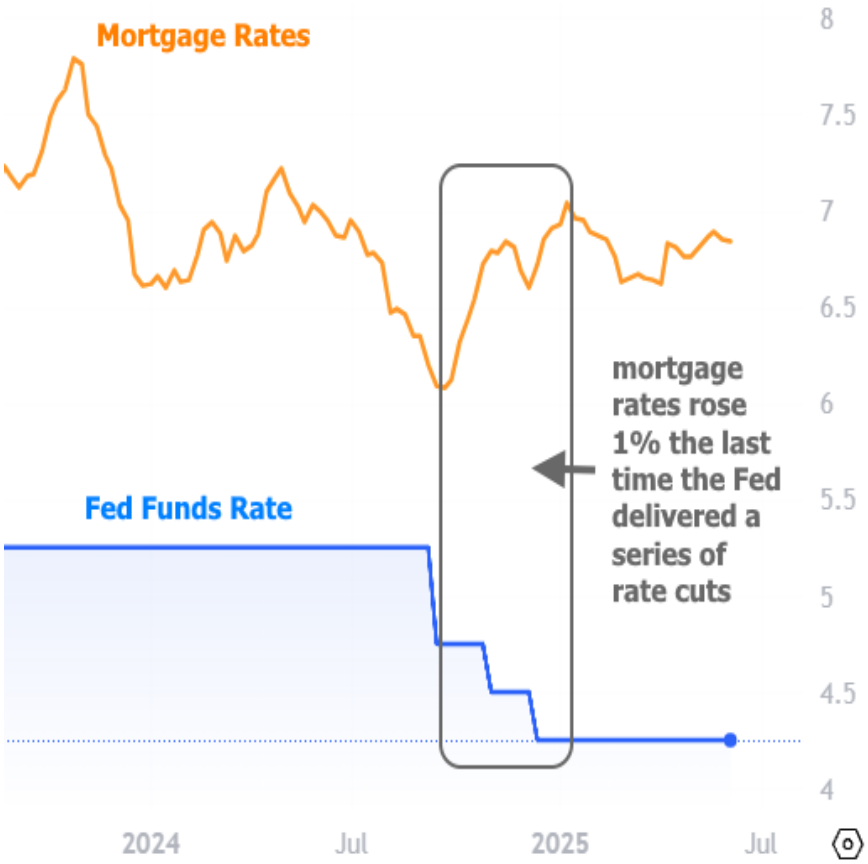
All that to say the Fed is definitely not cutting rates at next week's meeting and the market knows it. The Fed has been very clear in its desire to wait and see if tariffs/trade policy have a measurable impact on inflation AND that it feels justified in waiting as long as the labor market isn't deteriorating too quickly. Last week's jobs report seemed to condone that stance, for now.

Another question that fans of low mortgage rates should consider is whether a Fed rate cut is really the thing they want. History doesn't always repeat itself in exactly the same way, but the following chart is a sobering reminder for anyone who still thinks that Fed rate cuts help mortgage rates:

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Any meaningful market volatility from next week's Fed announcement is most likely to result from changes in the Fed's dot plot (a chart in its economic projection materials that shows each Fed member's forecast for the Fed Funds Rate over the next few years).

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 09				
11:00AM	May Consumer Inflation Expectations	3.2%		3.6%
Wednesday, Jun 11				
7:00AM	Jun/06 MBA Purchase Index	170.9		155.0
7:00AM	Jun/06 MBA Refi Index	707.4		611.8
8:30AM	May m/m CORE CPI (%)	0.1%	0.3%	0.2%
8:30AM	May y/y CORE CPI (%)	2.8%	2.9%	2.8%
Thursday, Jun 12				
8:30AM	Jun/07 Jobless Claims (k)	248K	240K	247K
8:30AM	May/31 Continued Claims (ml)	1956K	1910K	1904K
8:30AM	May Core Producer Prices MM (%)	0.1%	0.3%	-0.4%
8:30AM	May Core Producer Prices YY (%)	3%	3.1%	3.1%

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Friday, Jun 13				
10:00AM	Jun Consumer Sentiment (ip)	60.5	53.5	52.2
Monday, Jun 16				
8:30AM	Jun NY Fed Manufacturing	-16.00	-5.5	-9.20
Tuesday, Jun 17				
8:30AM	May Import prices mm (%)	0%	-0.2%	0.1%
8:30AM	May Retail Sales (%)	-0.9%	-0.7%	0.1%
9:15AM	May Industrial Production (%)	-0.2%	0.1%	0%
10:00AM	Apr Business Inventories (%)	0%	0%	0.1%
10:00AM	Jun NAHB housing market indx	32	36	34
Wednesday, Jun 18				
8:30AM	Jun/14 Jobless Claims (k)	245K	245K	248K
8:30AM	May Building Permits (ml)	1.393M	1.43M	1.422M
8:30AM	May Housing starts number mm (ml)	1.256M	1.36M	1.361M
2:00PM	Fed Interest Rate Decision	4.5%	4.5%	4.5%
2:00PM	FOMC Economic Projections			
2:30PM	Fed Press Conference			
Friday, Jun 20				
8:30AM	Jun Philly Fed Business Index	-4.0	-1	-4.0

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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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