

THE FEDERAL SAVINGS BANK



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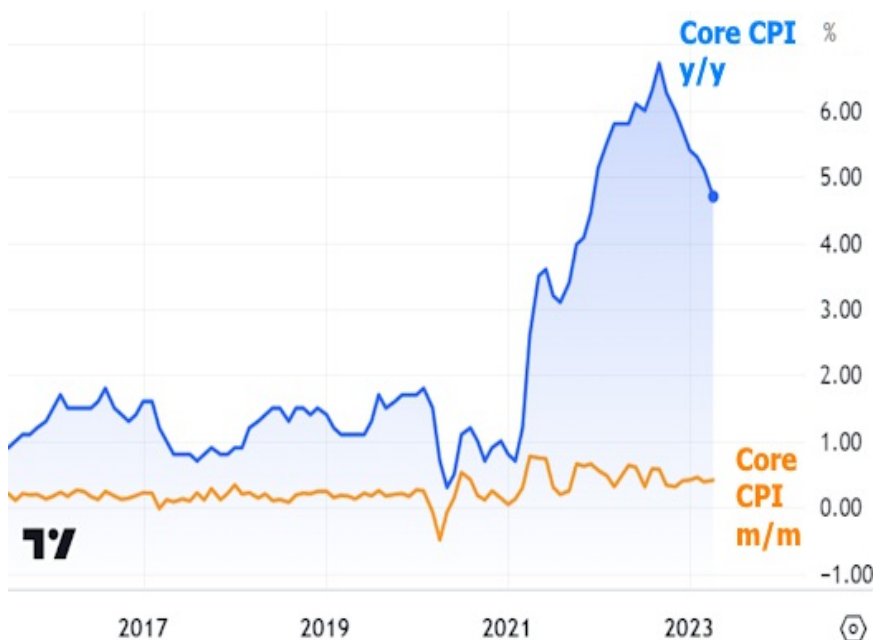
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Rates Seen Staying Higher For Longer. Blame Canada?

In a surprising turn of events, this week's biggest market mover for interest rates was a policy announcement by the Bank of Canada (BOC). The event was credited for prompting a re-think of the US Federal Reserve's rate outlook.

Specifically, the BOC hiked rates despite about half the market believing it would hold steady. While the odds that the Fed holds steady at next Wednesday's announcement are quite a bit better, the argument this week was that central banks might err on the side of tough love as opposed trusting that inflation would subside.

If we look at year-over-year numbers, it seems clear that inflation is subsiding. The following chart shows both monthly and annual versions of the Consumer Price Index (CPI) at the "core" level (which excludes more volatile food and energy prices). Core CPI is the most relevant inflation data as far as rates are concerned. The next release is next Tuesday, one day before the Fed announces whether or not it is hiking rates again.



If we zoom in on the monthly number only, we see a different theme. Inflation is still well above target levels and still trying to make up its mind on the direction of the next move.

National Average Mortgage Rates



Rate Change Points

Mortgage News Daily

| | Rate | Change | Points |
|--------------|-------|--------|--------|
| 30 Yr. Fixed | 6.43% | +0.02 | 0.00 |
| 15 Yr. Fixed | 5.95% | 0.00 | 0.00 |
| 30 Yr. FHA | 5.82% | +0.02 | 0.00 |
| 30 Yr. Jumbo | 6.62% | 0.00 | 0.00 |
| 5/1 ARM | 6.28% | -0.01 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.35% | -0.51 | 0.00 |
| 15 Yr. Fixed | 5.51% | -0.65 | 0.00 |

Rates as of: 8/30

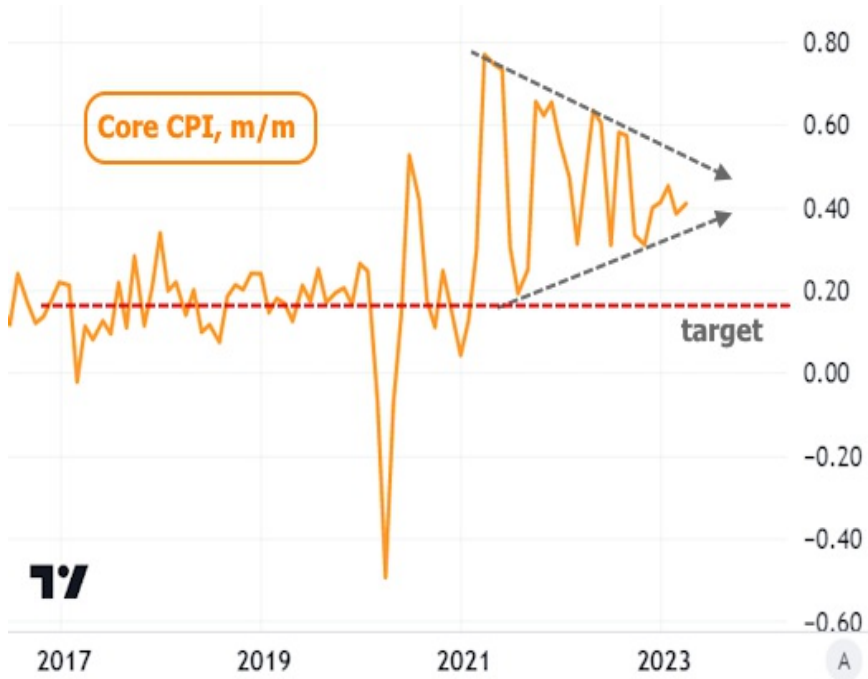
Market Data

| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 5.0 | 99.35 | -0.16 |
| MBS GNMA 5.0 | 99.91 | -0.04 |
| 10 YR Treasury | 3.9039 | +0.0424 |
| 30 YR Treasury | 4.1932 | +0.0468 |

Pricing as of: 8/30 5:59PM EST

Recent Housing Data

| | Value | Change |
|---------------------|--------------|---------|
| Mortgage Apps | Aug 28 226.9 | +0.49% |
| 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% |



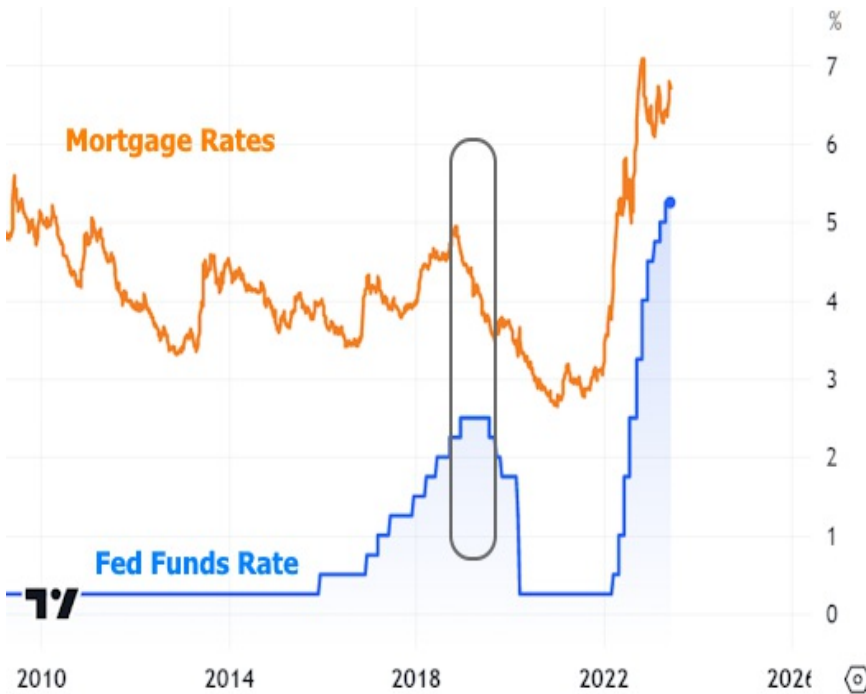
This inflation dynamic is responsible for the division of opinion on the Fed's next move. Actually, it would be better to think of the uncertainty in terms of the longer-term Fed Funds Rate path. Indeed, the Fed is unlikely to hike next week (unless CPI is far above expectations). Traders have been more interested in adjusting their expectations for where the Fed will be by the end of the year. Less than a month ago, futures markets were betting on a full point of rate cuts by December. As of Friday, the same metrics suggest the Fed might not be cutting rates at all in 2023.



Note, all of that upward movement in the blue line happened well before any news out of Canada this week. Things just happened to be fairly slow in the bond market as investors knew they were waiting for a much bigger week ahead. The BOC rate hike definitely got the market's attention in the short term, but the higher Jobless Claims data pushed yields right back down the following day. The following chart highlights those events as well as the other bigger influences on rates, starting with last Friday's jobs report. (Note: Jobless Claims and the "jobs report" are two different data sets. They occasionally disagree).



At this point, we should stop to ask how much we really care about the Fed Funds Rate (the thing the Fed has been hiking at the fastest pace in decades). While there is broad correlation with mortgage rates, there are numerous examples of longer-term rates moving in the opposite direction from the Fed. Things get especially tricky when the Fed is done or almost done hiking. Note the drop in mortgage rates the last time the Fed Funds Rate hit the sort of plateau the market is currently predicting.



In addition to getting the rate hike (or "pause") decision itself, next week also brings the quarterly release of the Fed members' rate outlook for the next few years. No one expects clairvoyance, but the forecasts offer insight to the Fed's approach to rate hikes (or pauses, or cuts) moving forward. Last but not least, Fed Chair Powell will hold the customary press conference 30 minutes after the 2pm ET announcement of the rate decision and updated forecasts. That all happens on Wednesday with the previous day bringing the CPI data at 8:30am ET.

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Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|--------------------------|----------------------------------|----------|----------|----------|
| Monday, Jun 05 | | | | |
| 10:00AM | May ISM Biz Activity | 51.5 | 52.5 | 52 |
| 10:00AM | May ISM N-Mfg PMI | 50.3 | 52.2 | 51.9 |
| 10:00AM | Apr Factory orders mm (%) | 0.4% | 0.8% | 0.6% |
| Wednesday, Jun 07 | | | | |
| 7:00AM | Jun/02 MBA Refi Index | 409.7 | | 412.5 |
| 7:00AM | Jun/02 MBA Purchase Index | 151.7 | | 154.4 |
| 8:30AM | Apr Trade Gap (bl) | \$-74.6B | \$-75.2B | \$-60.6B |
| 11:30AM | Leading index chg mm (%) | 5.200% | | 5.325% |
| 3:00PM | Apr Consumer credit (bl) | \$23.01B | \$22B | \$22.83B |
| Thursday, Jun 08 | | | | |
| 8:30AM | Jun/03 Jobless Claims (k) | 261K | 235K | 233K |
| 8:30AM | May/27 Continued Claims (ml) | 1757K | 1800K | 1794K |
| 10:00AM | Apr Wholesale inventories mm (%) | -0.1% | -0.2% | -0.2% |
| Monday, Jun 12 | | | | |
| 11:30AM | 3-Yr Note Auction (bl) | 40 | | |
| 1:00PM | 10-Year Note Auction | | | 3.448% |
| Tuesday, Jun 13 | | | | |
| 8:30AM | May m/m CORE CPI (%) | 0.4% | 0.4% | 0.4% |
| 8:30AM | May y/y CORE CPI (%) | 5.3% | 5.3% | 5.5% |
| 1:00PM | 30-Year Bond Auction | 3.908% | | 3.741% |
| Wednesday, Jun 14 | | | | |
| 7:00AM | Jun/09 MBA Refi Index | 434.1 | | 409.7 |
| 7:00AM | Jun/09 MBA Purchase Index | 163.2 | | 151.7 |
| 8:30AM | May Core Producer Prices MM (%) | 0.2% | 0.2% | 0.2% |
| 8:30AM | May Core Producer Prices YY (%) | 2.8% | 2.9% | 3.2% |
| 2:00PM | Fed Interest Rate Decision | 5.25% | 5.25% | 5.25% |
| 2:00PM | FOMC Economic Projections | | | |
| 2:30PM | Fed Press Conference | | | |
| Thursday, Jun 15 | | | | |
| 8:30AM | May Import prices mm (%) | -0.6% | -0.5% | 0.3% |
| 8:30AM | May Export prices mm (%) | -1.9% | 0% | -0.1% |
| 8:30AM | Jun NY Fed Manufacturing | 6.6 | -15.1 | -31.8 |
| 8:30AM | May Retail Sales (%) | 0.3% | -0.1% | 0.4% |
| 8:30AM | Jun Philly Fed Business Index | -13.7 | -14 | -10.4 |

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

| Date | Event | Actual | Forecast | Prior |
|-----------------------|---------------------------------|--------|----------|-------|
| 8:30AM | Jun/10 Jobless Claims (k) | 262K | 249K | 262K |
| 9:15AM | May Industrial Production (%) | -0.2% | 0.1% | 0.5% |
| Friday, Jun 16 | | | | |
| 10:00AM | Jun Consumer Sentiment (ip) | 63.9 | 60 | 59.2 |
| 10:00AM | Jun Sentiment: 5y Inflation (%) | 3.0% | | 3.1% |
| 10:00AM | Jun Sentiment: 1y Inflation (%) | 3.3% | | 4.2% |

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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