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EQUAL HOUSING LENDER

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Powell Puts a Lid on The Rate Debate, But Where's The Bottom?

Every year, the Federal Reserve (aka "the Fed") gathers in Jackson Hole, WY with a bevy of other central bankers and academics to discuss and comment on monetary policy in a setting that's slightly less formal than normal. Despite the scenic backdrop, Jackson Hole speeches by the Fed Chair have a somewhat reliable history of relevance to financial markets--especially those that dictate interest rate movement.

In this year's case, the symposium was almost perfectly timed to give Chair Powell an opportunity to append his last major appearance in the press conference that followed the Fed meeting just over 3 weeks ago. Rates liked what he had to say back then as well, but in Friday's speech, he said it a bit more forcefully.

In not so many words, Powell made it clear that the default game plan is to cut rates at the September meeting just under 4 weeks from now. In fact, as far as financial markets are concerned, the only uncertainty is whether the rate cut will be the minimum 0.25% or double that amount.

To be fair and clear, that's about where the market ended up after the last speech, but that was followed by several big ticket market movers that temporarily convinced traders the Fed would be cutting by AT LEAST 0.50% a few short days later. For a few moments, the market was actually closer to a 0.75% cut!

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.73	+0.03
10 YR Treasury	5.1260	-0.0082
30 YR Treasury	5.4714	-0.0044

Pricing as of: 11/16 7:12PM EST

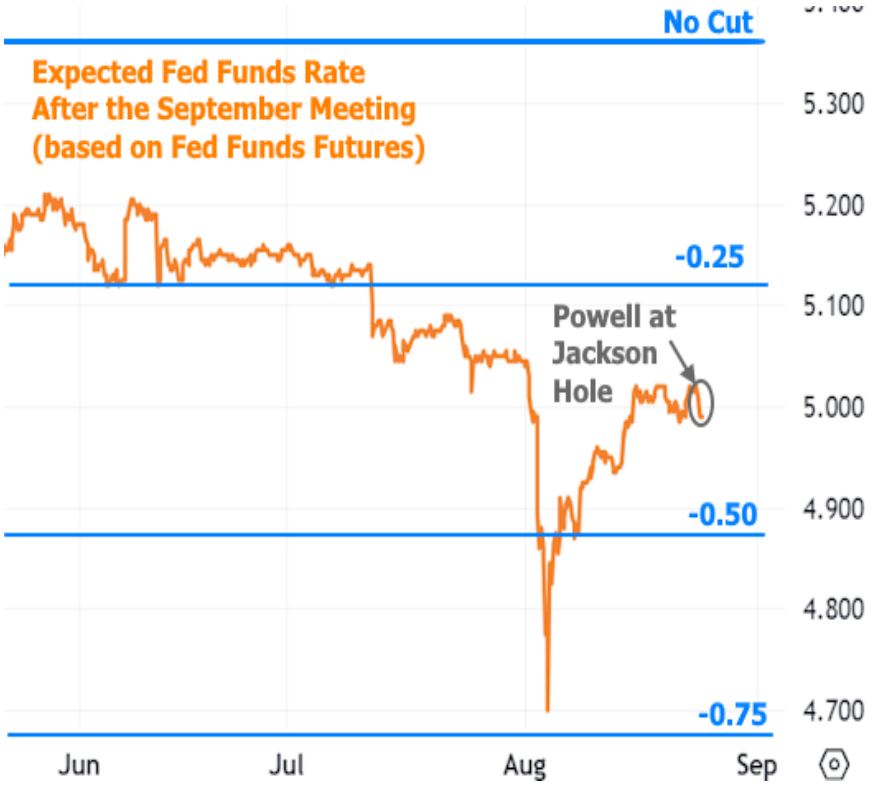
Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
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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Over the 2 weeks that followed, several economic reports forced a rethink of those assumptions, thus putting Powell in a position to put a ceiling on near term rate expectations (rather than comment on how quickly rates might move lower). His speech certainly delivered said ceiling and also stayed clear of signaling any low rate exuberance. As can be seen in the chart above, it was ultimately small potatoes compared to recent volatility.

For their part, mortgage rates had a "nice" day, making a modest move down to the lowest levels in just over 2 weeks. For those who prefer their milestones a bit more grandiose, that also makes today the 3rd best day in well over a year.

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Despite the apparent clarity at the moment, it's good to keep the recent dichotomy in the data in mind. On the one hand, we had weak economic data in early August that helped drive rate expectations as low as they were. On the other hand, the economic reports in the following weeks helped push rates quickly back in the other direction. Since then, we've been consolidating in a narrower, relatively calmer range as seen in the chart of 10yr Treasury yields below.

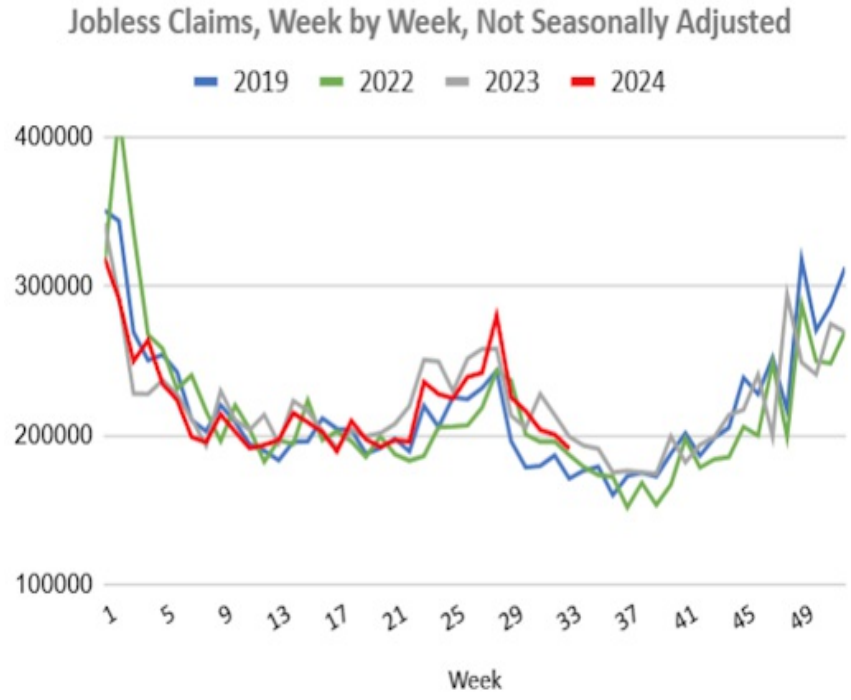
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Even in the present week, economic data is far from signaling any sort of contraction or turmoil. The Jobless Claims report--the most timely major labor market indicator--continues falling in line with the last 2 years. This red line would need to be breaking up and away from the others in order for the more aggressive rate cut scenarios to pan out.

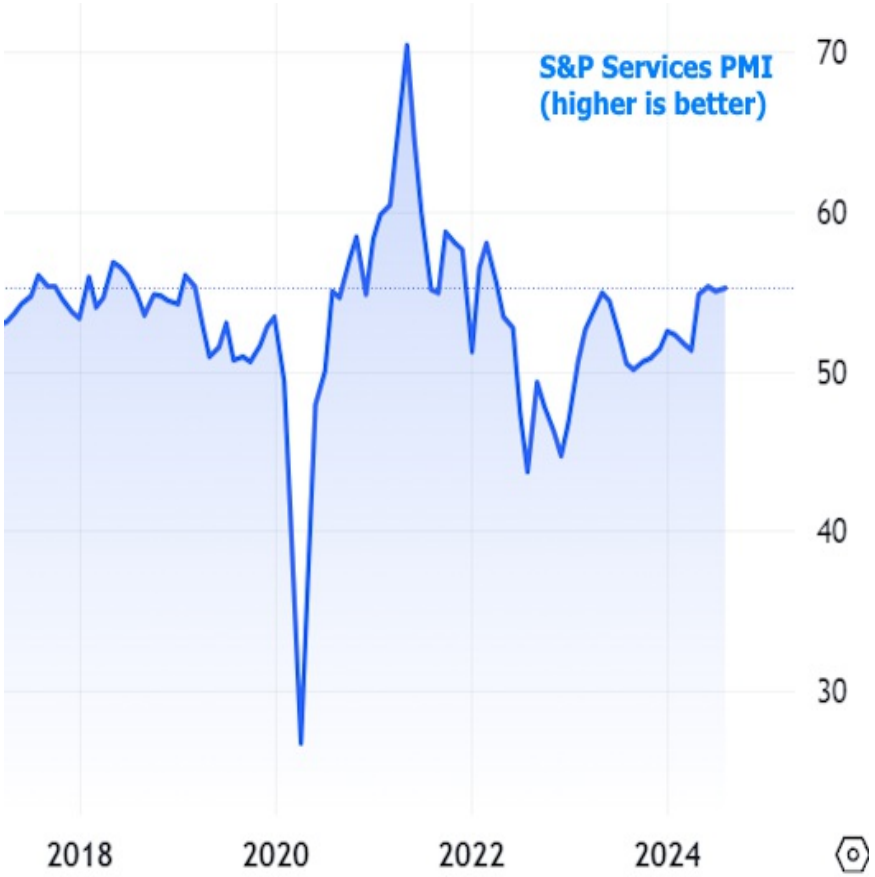


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The only other major report this week was the Services Purchasing Managers Index (PMI) from S&P Global. A PMI measures economic output with a reading over 50 generally indicating expansion. This month's came out at 55.2 which was just a hair higher than last month's and near the top of the recent range.



In the coming weeks (and especially in the first two weeks of September), we'll get even more economic data with the power to refine rate cut prospects. Just keep in mind that the Fed's rate cut would merely be the confirmation of what the rest of the rate market is already doing. In other words, mortgage rates and Treasuries have already priced in a rate cut. Now the data needs to avoid saying anything too glorious about the economy if the presently low rates are to stick around.

Additional improvements in rate would have to come from deterioration in the economic outlook, but there too, that's something that mortgage rates could price in well before the Fed meeting.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Aug 21				
7:00AM	Aug/16 MBA Refi Index	754.4		889.3
7:00AM	Aug/16 MBA Purchase Index	130.6		137.7
10:00AM	Mar Non Farm Payrolls Annual Revision (%)	-818K		-187K
2:00PM	FOMC Minutes			
Thursday, Aug 22				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
9:45AM	Aug S&P Global Services PMI	55.2	54	55.0
10:00AM	Jul Existing home sales (ml)	3.95M	3.93M	3.89M
Friday, Aug 23				
10:00AM	Jul New Home Sales (ml)	0.739M	0.63M	0.617M
10:00AM	Fed Chair Powell Speech			
Monday, Aug 26				
8:30AM	Jul Durable goods (%)	9.9%	5%	-6.6%
Tuesday, Aug 27				
9:00AM	Jun FHFA Home Prices y/y (%)	5.1%		5.7%
9:00AM	Jun Case Shiller Home Prices-20 y/y (%)	6.5%	6%	6.8%
10:00AM	Aug CB Consumer Confidence (%)	103.3	100.7	100.3
Thursday, Aug 29				
8:30AM	Q2 GDP (%)	3%	2.8%	1.4%
8:30AM	Aug/24 Jobless Claims (k)	231K	232K	232K
10:00AM	Jul Pending Home Sales (%)	-5.5%	0.4%	4.8%
Friday, Aug 30				
8:30AM	Jul Core PCE Inflation (y/y) (%)	2.6%	2.7%	2.6%
8:30AM	Jul Core PCE (m/m) (%)	0.2%	0.2%	0.2%
9:45AM	Aug Chicago PMI	46.1	45.5	45.3
10:00AM	Aug Consumer Sentiment (ip)	67.9	68	66.4

Responsive service, experienced expertise

I've dedicated my 26 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.

Ted Rood

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