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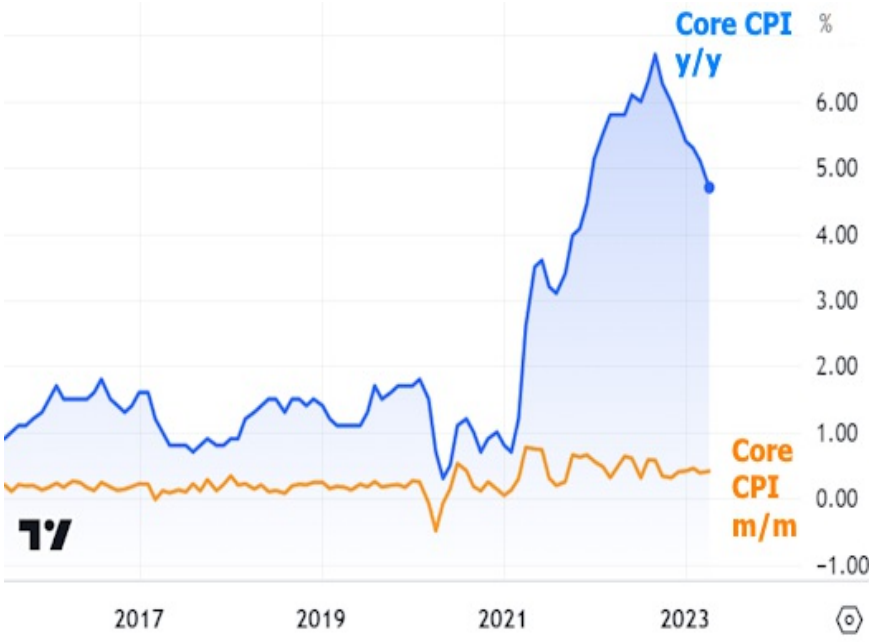
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Rates Seen Staying Higher For Longer. Blame Canada?

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



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.30%	+0.03	0.00
15YR Fixed	6.91%	-0.01	0.00
30YR FHA	6.95%	+0.04	0.00
30YR Jumbo	7.45%	-0.07	0.00
7/6 SOFR	6.71%	+0.01	0.00
30YR VA	6.97%	+0.05	0.00

Rates as of: 11/3

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.95	+0.20
10 YR Treasury	4.9502	-0.0201
30 YR Treasury	5.3308	-0.0010

Pricing as of: 11/4 10:29AM EST

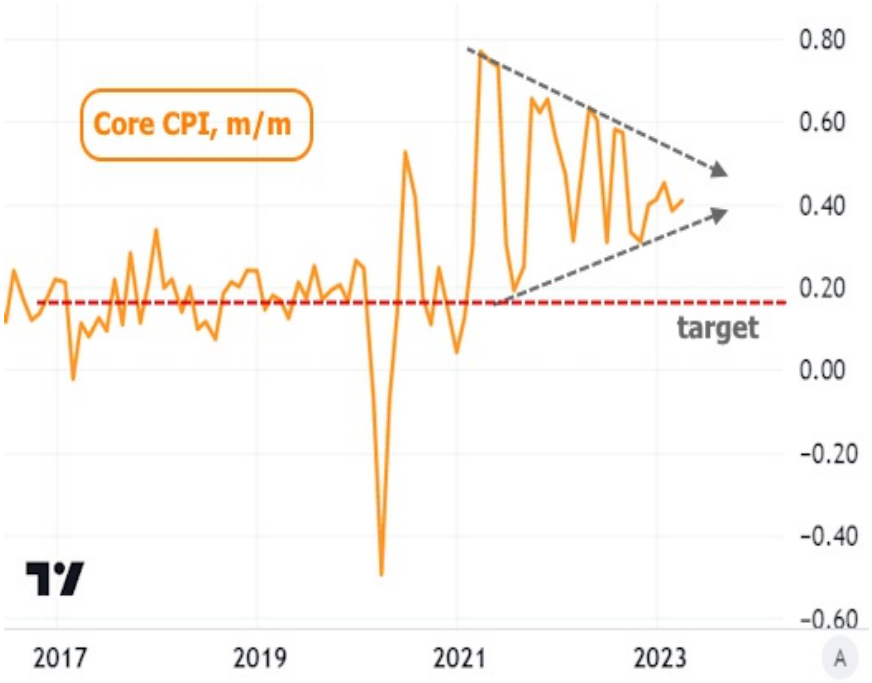
Recent Housing Data

		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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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).

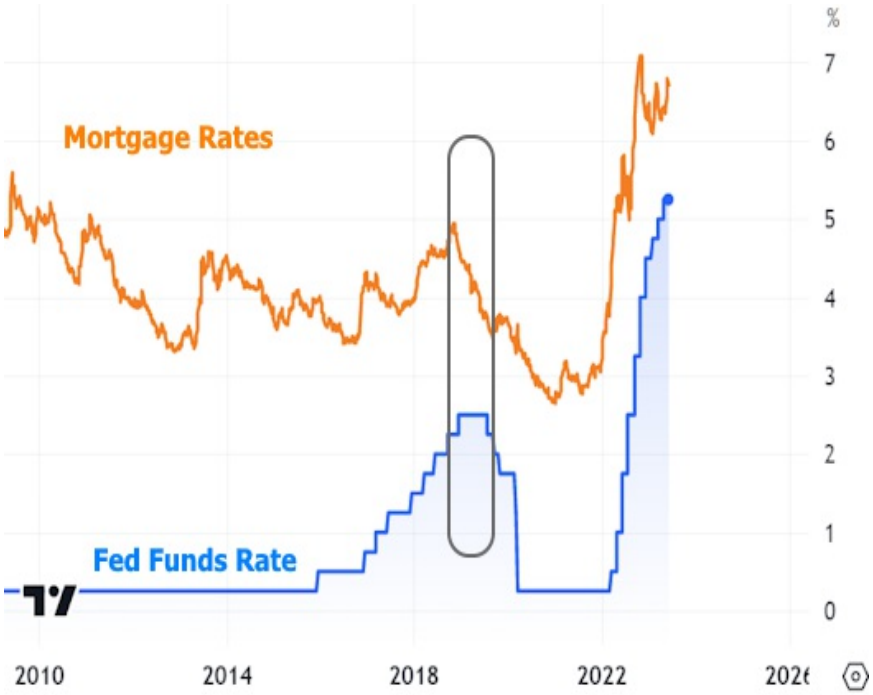
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At this point, we should stop to ask how much we really care about the Fed Funds Rate (the thing the Fed has been hiking at the fastest pace in decades). While there is broad correlation with mortgage rates, there are numerous examples of longer-term 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

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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%

The Right Advice Is What Saves You Money

A Mortgage is a financial tool. The right tools help you build. At Cornerstone First, my tool belt is filled with many different tools so I can say "Yes" to more clients and referral partners.

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