



Mid Valley Financial

Mortgage Banker, Since 1985
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Best Winning Streak For Rates in 2 Years

It was a critical week for financial markets and especially for rates as investors digested the latest inflation data and the Fed's smaller rate hike. In fact, the latest inflation data could be thought of as the most important and most persistent focus for rates all year long.

When it comes to measuring inflation, there are multiple economic reports that matter, but it is the Consumer Price Index (CPI) that has by far and away the biggest impact on the market. This week's installment was important because the last installment suggested a shift toward a slower pace of price increases. In other words, it had the opportunity to confirm that shift or argue against it.

Inflation is important for a variety of reasons, but it affects the market most directly due to its influence on the Federal Reserve's policies. Higher inflation means more rate hikes and more rate hikes reverberate through the economy. While the Fed Funds Rate doesn't directly dictate mortgage rates, if markets expect the Fed to hike faster than before, interest rates tend to move higher and stocks tend to move lower.

In the following chart, the 10yr Treasury yield represents the "rate" side of the equation, and it is a dead giveaway that this week's inflation report was lower than expected (Dec 13th). The chart shows stocks and rates reacting to the Fed policy implications in the first half of the week. Then later in the week, additional weakness in stocks helped rates remain a bit lower as investors sold stocks aggressively and sought a safer haven in the bond market.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

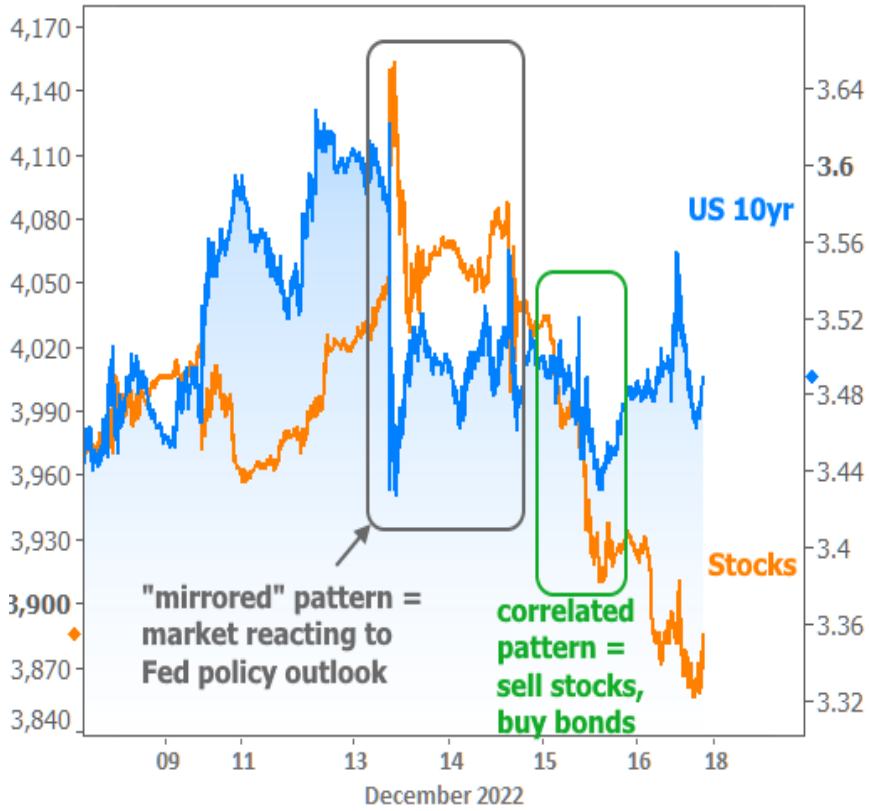
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2423	-0.0102
30 YR Treasury	4.4617	-0.0108

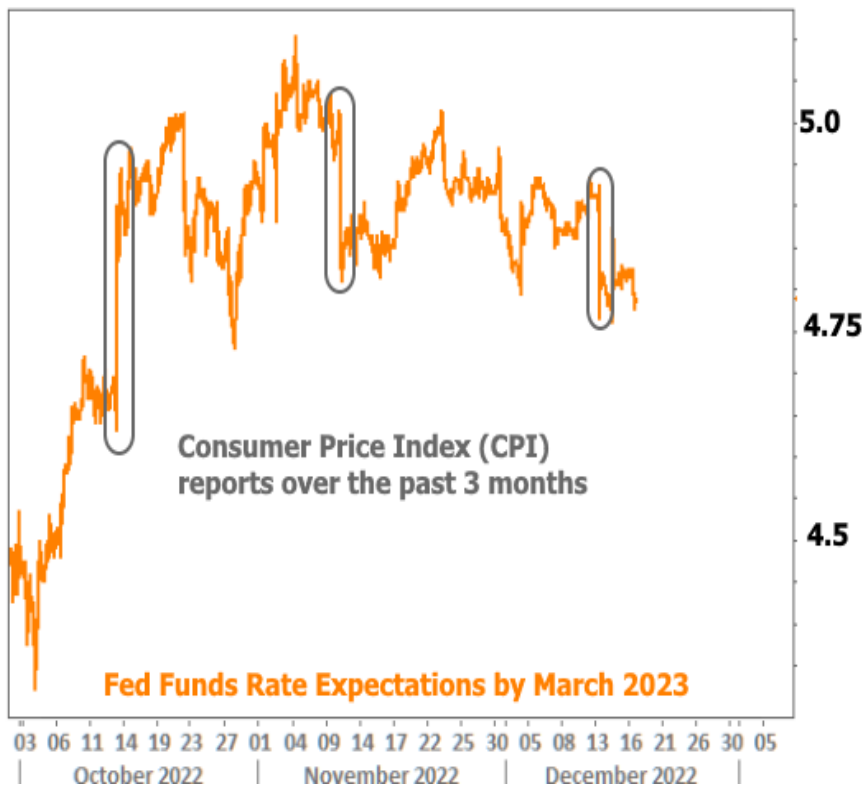
Pricing as of: 7/22 9:02PM EST

Recent Housing Data

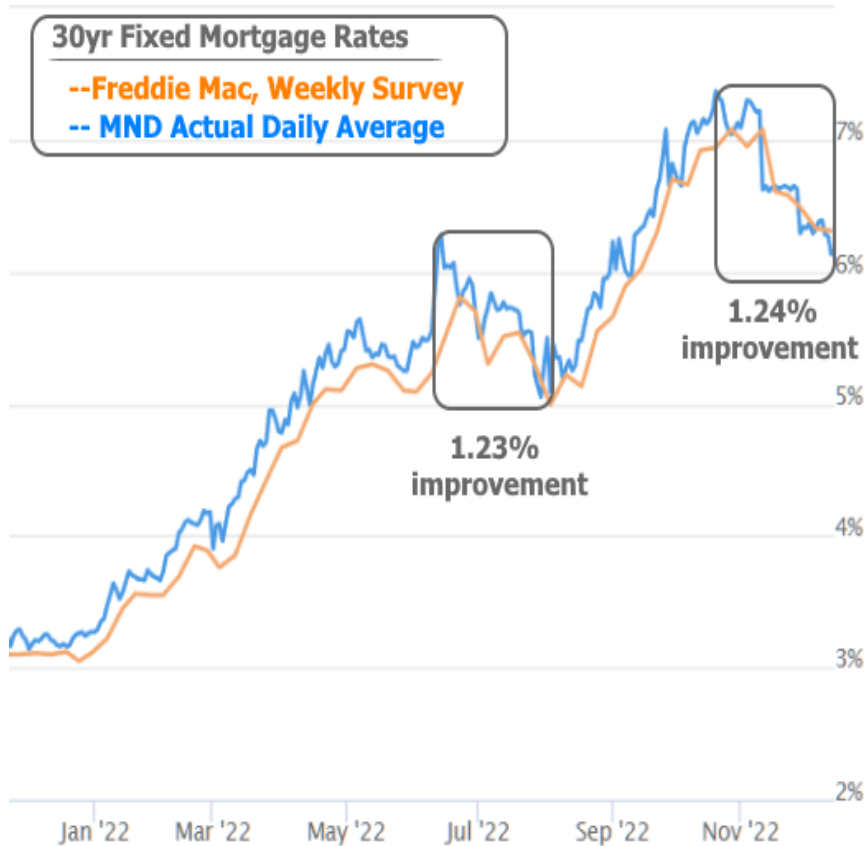
	Value	Change
Mortgage Apps	Jul 10 206.1	-0.19%
Building Permits	Mar 1.46M	-3.95%
Housing Starts	Mar 1.32M	-13.15%
New Home Sales	Mar 693K	+4.68%
Pending Home Sales	Feb 75.6	+1.75%
Existing Home Sales	Feb 3.97M	-0.75%
Builder Confidence	Mar 51	+6.25%



To show just how important CPI has been to shaping Fed policy expectations, the following charts the market's expectation for the Fed Funds Rate by March of 2023--roughly when the Fed is expected to hit the ceiling for this rate hike cycle. Each instance of the past 3 CPI reports is highlighted. The one that came out in October was higher (aka "bad for rates"). That was the report that resulted in the highest mortgage rates in 20 years a short while later. November's report pushed back in the other direction. Finally, this week's lower CPI number helped to confirm November's message.

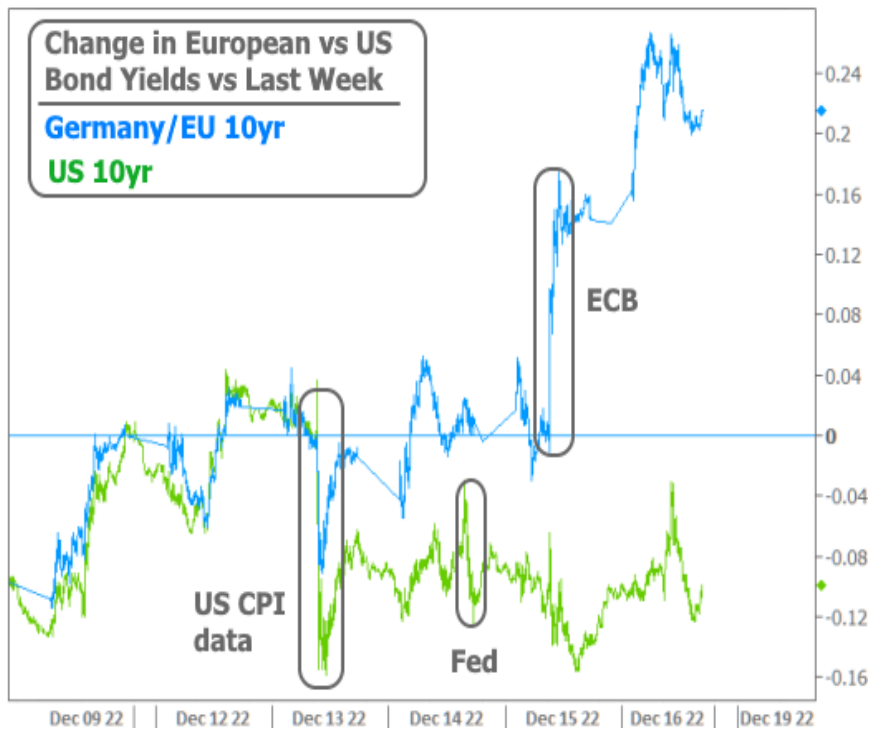


If the chart above looks like a big leveling-off process, mortgage rates agree. After spiking to long term highs in October, the last two inflation reports combined to create the best winning streak since the start of the pandemic. It was poetic justice that the current streak just narrowly beat out the summertime rate rally as that one was based on false hope from only one hopeful CPI report.



Rates may have had an even better week were it not for the influence of European markets. For better or worse, the securities that ultimately drive rate momentum are globally interdependent to some extent. That was a good thing in 2010-2012 when the European credit crisis drove investors into the safest havens and then again in 2014-2015 as the European Central Bank (ECB) announced and then enacted its version of the Fed's bond buying programs.

The ECB released its latest policy announcement on Thursday this week. It hiked rates as expected, but other parts of the announcement were slightly unexpected. Officials saw inflation rising faster than previously forecast and they moved to dial back bond holdings sooner than expected. The result was a sharp move higher in European rates (benchmarked below by Germany's 10yr sovereign yield). It gave pause to US yields at first, but weaker economic data on Thursday morning helped turn things around less mere minutes after the ECB announcement.



As noted on the chart above, we also had a Fed announcement this week. It would be easy to lose it in the shuffle based on the market's fairly docile reaction. The Fed hiked rates 0.50% as expected and made effectively no changes to their official verbiage. The most notable development was an upgrade to the Fed's rate forecasts, which they submit at every other meeting. We knew they'd be higher based on recent Fed speeches, but markets weren't expecting them to move up quite as much as they did. The result was a quick but manageable pop to higher rates that lasted about an hour. Fed Chair Powell talked rates back down--even if not intentionally--during his press conference by saying that the Fed expected inflation to begin falling more sharply in 2023.

It's never possible to know exactly what rates will do in the future. It always "depends" on a number of variables. At present, we know that rate momentum will continue to depend on incoming inflation data. That said, the fact that we now have 2 consecutive inflation reports showing deceleration and a similar deceleration in the pace of Fed rate hikes means we've all but certainly seen the highest rates for this cycle back in October. That's as close to a certainty as there is in an uncertain endeavor.

The upcoming weeks may be "weird" for markets and rates as many of the human beings responsible for turning the gears behind the scenes will be out on holiday or otherwise less engaged than normal. This can lead to more random movement. Markets will quickly be getting back to full strength by the time the jobs report comes out on the first Friday in January.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Dec 12				
11:30AM	3-Yr Note Auction (bl)	40		
Tuesday, Dec 13				
8:30AM	Nov y/y CORE CPI (%)	6.0	6.1	6.3

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Nov m/m CORE CPI (%)	0.2	0.3	0.3
Wednesday, Dec 14				
7:00AM	w/e MBA Refi Index	350.5		340.8
7:00AM	w/e MBA Purchase Index	182.6		175.5
8:30AM	Nov Import prices mm (%)	-0.6	-0.5	-0.2
2:00PM	N/A FOMC rate decision (%)	4.250 - 4.500	4.375	3.875
2:30PM	Powell Press Conference			
Thursday, Dec 15				
8:30AM	Nov Retail Sales (%)	-0.6	-0.1	1.3
8:30AM	Dec Philly Fed Business Index	-13.8	-10.0	-19.4
8:30AM	Dec NY Fed Manufacturing	-11.2	-1.00	4.50
8:30AM	w/e Jobless Claims (k)	211	230	230
Friday, Dec 16				
9:45AM	Dec Markit Composite PMI	44.6	47.0	46.4
Monday, Dec 19				
10:00AM	Dec NAHB housing market indx	31	34	33
Tuesday, Dec 20				
8:30AM	Nov House starts mm: change (%)	-0.5		-4.2
8:30AM	Nov Building permits: number (ml)	1.342	1.485	1.512
Wednesday, Dec 21				
7:00AM	w/e MBA Purchase Index	182.5		182.6
7:00AM	w/e MBA Refi Index	371.4		350.5
10:00AM	Nov Existing home sales (ml)	4.09	4.20	4.43
10:00AM	Dec Consumer confidence	108.3	101.0	100.2
Thursday, Dec 22				
8:30AM	Q3 GDP Final (%)	3.2	2.9	2.9
8:30AM	w/e Jobless Claims (k)	216	222	211
Friday, Dec 23				
8:30AM	Nov Durable goods (%)	-2.1	-0.6	1.1
8:30AM	Nov Core PCE Inflation (y/y) (%)	4.7	4.7	5.0
10:00AM	Dec Consumer Sentiment (ip)	59.7	59.1	59.1
10:00AM	Nov New Home Sales (%) (%)	+5.8	-4.7	7.5
Wednesday, Jan 11				
1:00PM	10-yr Note Auction (bl)	32		
Thursday, Jan 12				
1:00PM	30-Yr Bond Auction (bl)	18		
Wednesday, Jan 18				
1:00PM	20-Yr Bond Auction (bl)	12		

Who is Mid Valley Financial?

Mid Valley Financial, located in Fresno, CA, is the Central Valley's premier destination for a wide range of residential and commercial real estate loans. Our commitment to excellence has made us a trusted partner for property buyers and investors seeking tailored financial solutions.

****Why Choose Us:****

With a track record spanning back to our inception in 1985, we have established ourselves as a reliable and innovative lender. We proudly serve properties exclusively within California, having funded loans in all 58 counties of the state. Our deep-rooted experience enables us to navigate complex loan scenarios with expertise and efficiency.

****Our Approach:****

At Mid Valley Financial, we prioritize your financial goals. Whether you're a first-time homebuyer, envisioning your dream property, refinancing an existing mortgage, or looking to tap into your property's equity, our seasoned loan officers offer a wealth of knowledge and over 300 years of collective experience. We ensure that your funds are prepared when you need them, providing a smooth and swift loan process.

****Unlocking Possibilities:****

As one of California's leading direct lenders, we've streamlined the loan process, minimizing obstacles that often deter borrowers. Many of our clients receive approvals within an hour, showcasing our dedication to quick and hassle-free solutions.

****Your Journey with Us:****

Contact the MVF team today and let us put your journey to property ownership on cruise control. Our mission is to empower borrowers while fostering enduring and meaningful relationships. With highly competitive rates, a commitment to transparency, and a dedication to your financial success, Mid Valley Financial is your partner in realizing your real estate aspirations.

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