

What Will The Fed Do To Mortgage Rates on Wednesday?

Mortgage rates inched gently lower yet again today. That's the 4th day in a row without moving higher, but it's just as fair to say rates have been broadly sideways for the past two weeks after moving up from 7 month lows seen in late December.

Volatility has generally been muted as the market waits for bigger ticket data and events. One event that always classifies as potentially major is the Fed's scheduled policy announcement tomorrow afternoon. Indeed, some of the biggest swings in rates have been inspired by Fed days.

It's quite common and also a mistake to view the big rate reactions as having anything to do with the Fed announcing a rate hike or cut. If someone asks you tonight: "so... you think the Fed's gonna cut mortgage rates tomorrow?" they are misguided on two levels.

First off, the Fed doesn't directly set mortgage rates. The Fed sets the Fed Funds Rate, which applies to the shortest possible time frames. Mortgage rates apply to mortgages that last years (even after accounting for average sale/refi time). Obligations measured in years behave differently when compared to overnight obligations such as those subject to the Fed Funds Rate.

Secondly, the Fed will most certainly neither hike nor cut rates tomorrow. This is as much of a certainty as anything in the future ever is in the world of interest rates. If the Fed is to have an impact on mortgage rates tomorrow, it would only be due to the market's interpretation of comments pertaining to the future. The text of the official announcement is an unlikely venue for such comments, so they could only come from the 2:30pm press conference with Fed Chair Powell.

Even then, it's hard to imagine a reason that the Fed would be feeling any different than the last time we heard from Powell and other Fed speakers. We know inflation has been moving in a decent direction, but that the battle isn't over. We know they expect to cut rates in 2024 if they had to guess about how things would evolve, but that there isn't enough justification yet. We know the economic data has been too strong to twist their arm on that front and that none of the recent data is any exception.

Bottom line: markets would have to go looking for a takeaway from tomorrow's press conference with a certain amount of predisposition unless Powell happens to address one esoteric aspect of Fed policy regarding the shrinking of the Fed's massive balance sheet of Treasuries and mortgage-backed securities. It might be a bit soon to speculate on that topic, so we'll cross the bridge tomorrow if it happens to exist.



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