MORTGAGE MARKET IN REVIEW

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HOMETOWN AMERICA INCORPORATED

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Market Comment

Mortgage bond prices finished the week sharply lower which put significant upward pressure on rates. The MBS market had not experienced such spikes in a very long time. There were large rate increases Monday, Tuesday, Thursday, and Friday. Inflation fears, anticipated Fed adjustments, and general uncertainty dominated trading. The data was mixed. ISM Index was 58.7 vs 60. ADP employment rose 807K vs 420K. Weekly jobless claims were 207K vs 195K. The trade deficit was $80.2B vs $70B. Factory orders rose 1.6% vs 1.2%. Unemployment was 3.9% vs 4.1%, payrolls rose 199K vs 400K, and average hourly earnings rose 0.6% vs 0.4%. Mortgage interest rates finished the week worse by over a full discount point.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
Consumer Price Index	Wednesday, Jan. 12, 8:30 am, et	Up 0.4%, Core up 0.5%	Important. A measure of inflation at the consumer level. Weaker figures may lead to lower rates.
Weekly Jobless Claims	Thursday, Jan. 13, 8:30 am, et	205K	Important. An indication of employment. Higher claims may result in lower rates.
Producer Price Index	Thursday, Jan. 13, 8:30 am, et	Up 0.4%, Core up 0.5%	Important. An indication of inflationary pressures at the producer level. Weaker figures may lead to lower rates.
Retail Sales	Friday, Jan. 14, 8:30 am, et	Up 0.4%	Important. A measure of consumer demand. A smaller than expected increase may lead to lower mortgage rates.

Industrial Production	Friday, Jan. 14, 9:15 am, et	Up 0.4%	Important. A measure of manufacturing sector strength. A lower-than-expected increase may lead to lower rates.
Capacity Utilization	Friday, Jan. 14, 9:15 am, et	76.9%	Important. A figure above 85% is viewed as inflationary. Weaker figure may lead to lower rates.
U of Michigan Consumer Sentiment	Friday, Jan. 14, 10:00 am, et	70.6	Important. An indication of consumers' willingness to spend. Weakness may lead to lower mortgage rates.

Fed Minutes

The minutes from the December Fed meeting released last week caused mortgage interest rate increases. The Fed reported, "Regarding the outlook for U.S. monetary policy, expectations for a reduction in policy accommodation shifted forward notably. Respondents to the Open Market Desk's surveys of primary dealers and market participants broadly projected that the Committee would quicken the pace of reduction in the Federal Reserve's net purchases of Treasury securities and agency mortgage-backed securities (MBS), and the median respondent projected net asset purchases to end in March 2022. The median respondent's projected timing for the first increase in the target range for the federal funds rate also moved earlier from the first quarter of 2023 to June 2022.

Although the Desk surveys and interest rate futures indicated expectations for earlier increases in the target range than at the time of the November meeting, expectations for the federal funds rate at longer horizons did not appear to have risen. In addition, the average of probability distributions for the federal funds rate reported in the Desk surveys suggested considerable uncertainty about the path of the federal funds rate, as survey respondents placed significant odds on a range of outcomes. With the likely timing of the beginning of the removal of policy accommodation considered closer, market participants began to discuss how balance sheet policy might feature in the Committee's plan for reducing accommodation when warranted, although expectations for the timing of the first decline in the balance sheet were diffuse."

A cautious approach to float/lock decisions is prudent with so much uncertainty ahead.