Mortgage Rate Watch

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Mortgage Rates Down Only Slightly Despite Bond Market Rally

What's a bond market rally and **why should mortgage rates care?** There are all kinds of bonds. US Treasuries would be the quintessential example, but there are also bonds specific to the mortgage market. These are what groups of loans ultimately become in order to be traded on the open market (thus allowing lenders to make more loans with less risk and lower rates). As investors buy and sell bonds throughout the day, bond prices change. The higher the price, the lower the implied interest rate. Simply put, if bonds are rallying, rates should be falling shortly thereafter.

The 10yr Treasury yield is typically an excellent barometer for mortgage rate movement. 10yr Treasuries and mortgage-backed bonds tend to correlate **extremely** well. As such, we might expect a more significant improvement in mortgage rates on a day where 10yr Treasury yields fell by more than 0.05%. As it stands, the average mortgage rate is, at best, 0.02% lower (and in many cases, unchanged).

This has to do with periodic variations in behavior between these two otherwise highly correlated markets. Those variations can crop up for a variety of reasons, but today's was as simple as **supply/demand imbalances in mortgage bonds** during the Federal Reserve's scheduled buying operation. Long story short, there was a long line of mortgage bond sellers waiting to offload to the Fed. Many of them were left holding the bag and were thus forced to accept lower prices later in the day (lower prices = higher rates, all other things being equal). Fortunately, that drop wasn't big enough to push prices any lower than they were on Friday afternoon. Otherwise, mortgage rates could have moved higher today as opposed to merely holding mostly steady.

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