MORTGAGE RATE WATCH
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Mortgage Rates Moving Higher So Far This Week

Mortgage rates are coming off a solid performance last week after having moved to the **lowest levels in 5 months** by Thursday afternoon. This week is shaping up to be **a bit different**, however. In fact, as of this afternoon, the average lender has lost **most** of last week's improvements.

What's behind the volatility?

There are both **general** and **specific** considerations. In a general sense, last week's bond market gains (stronger bonds = lower rates) were perhaps a bit overdone. They set the stage for a potential correction purely for technical reasons. In other words, nothing new or notable changed after last Thursday to push rates back up--at least not until today.

Today brought the **specific** considerations with a **double whammy** from inflation data and a Treasury bond auction. The consumer price index, one of the main inflation benchmarks, rose at the fastest pace in nearly 30 years. Higher inflation = higher rates, all other things being equal, so it was no surprise to see some negative volatility this morning after the data.

Surprisingly though, bonds ended up **calming down** shortly after the data. Actually, it may not be too surprising considering the market has done a pretty good job of taking recently higher inflation numbers in stride based on the belief that things will settle down when various post-covid supply chain disruptions settle down After all, a majority of the inflation number was accounted for by used cars. The automotive price surge is almost exclusively driven by the supply side of the equation in this case.

The 30yr bond auction was a **bigger offender**. Not to be confused with a 30yr fixed mortgage rate, the 30yr Treasury bond is nonetheless a benchmark for longer-term rates in the same way as the 10yr Treasury (although the latter is even more relevant for the mortgage market). When demand at auctions is weak, the market can quickly adjust toward higher yields. That's what happened today, and the move reverberated throughout the market for similar bonds (including those that underpin the mortgage market).

Translation: today's bond auction caused bond prices to move quickly lower and yields to move quickly higher. A vast majority of mortgage lenders reacted by bumping their rates up a bit in the afternoon. Combined with the modest upward trajectory already in place for the week, this brings the average lender close to the rate offerings seen at the beginning of the previous week.

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