Mortgage Rates Recover Most of Yesterday's Losses

Mortgage rates moved higher **yesterday** after a poorly-received 30yr bond auction (read more...). The bond market began to heal in the overnight trading session. By the time US traders clocked in this morning, **more than half** of the weakness had been erased. As the day progressed, things have only improved. All this despite another hotter-than-expected inflation report (something that traditionally puts upward pressure on rates) to kick off the day.

While inflation is indeed bad for rates, all other things being equal, there are **several caveats** at the moment. The first is that the current inflation spike is well understood as being driven in large part by covid-related supply chain disruptions, even if the boundaries are not easy to predict in the short term. Everyone hopes or expects the inflationary surge to be temporary and markets are trading accordingly--for now.

We also have **reassurance from Fed Chair Powell** in today's congressional testimony. Powell said that while the inflation data has been surprisingly high, the Fed continues to expect it to calm down. Moreover, if it doesn't calm down, the Fed has tools to address it. More importantly, the Fed is not yet seeing what it needs to see in order to taper its bond purchases even though the conversation about how to do that is ongoing.

Gregory Pavlich
President, Resource Mortgage Corp
www.rmcboulder.com
P: (303) 444-1200
M: (303) 717-1359
1221 Pearl St
Boulder CO 80302

The bond buying program is one of the main reasons rates are as low as they are. As such, when Powell says things that speak to its longevity, **rates like it!** All that having been said, these ups and downs continue to play out in a fairly narrow range. Between yesterday and today, the average borrower would only see the improvement in form of upfront costs/credits as opposed to the "note rate" itself. Note rates are typically offered in 0.125% increments and the bond market rarely moves enough in one day to suggest that much of a change. Upfront costs/credits provide more fine-tuning capability.