MORTGAGE RATE WATCH
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Mortgage Rates Rise Just a Bit More Ahead of Important Inflation Data

Mortgage rates rose at their fastest pace in decades in 2022 and if only one thing could take the blame, it would be inflation. There are several ways to link inflation to upward pressure on rates, but the simplest is to consider that rates are based on bonds and inflation lowers the value of bonds.

In other words, if you are an investor who buys mortgages, you might be willing to accept a 6.5% rate of return today. Now let's say inflation skyrockets. If you still charge 6.5%, the payments you receive will buy a lot less "stuff." So you have to increase your rates in order to get the same financial benefit.

Because of the inflation focus, the biggest inflation reports have been closely-watched indicator for rate momentum for more than a year now. None are bigger than the Consumer Price Index (CPI), and the latest installment will be out on Wednesday morning, May 10th, at 8:30am Eastern Time.

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There is always a catalog of multiple professional forecasts for big economic reports.
Markets adjust to those forecast levels, or close to them well ahead of the official release of the data. Then if the data hits the forecast, markets don't need to move much. But if CPI were to fall much higher or lower than forecast, the market would view this as an indication that inflation was trending higher or lower relative to previous expectations. Rates would react accordingly (i.e. higher for high inflation and lower for low inflation). The farther from forecast the actual number falls, the bigger the reaction could be.

As for today, there was just a bit of extra upward momentum for interest rates with the average lender moving up by less than an eighth of a percent for a conventional 30yr fixed loan. This level of volatility isn't really worth writing home about considering how big Wednesday might be.