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Mortgage Rates Only Modestly Higher Despite 'Unfriendly' Data

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Whatever is bad for the economy is typically good for interest rates. That's the grim irony for the mortgage market and it's the reason you might find a crowd of rate watchers feeling good about downbeat economic data. It's not that they are happy about job losses or lower economic performance. They're just excited to be able to offer their clients lower rates.

Today's version of this dynamic was quite the opposite, however. The economic data was friendly toward the economy, most notably with Retail Sales rising 0.6% versus a median forecast of 0.2%.

As far as rates are concerned, that's unfriendly news. Bonds (which dictate rates) immediately weakened after the data came out, but thankfully, not as much as we would have expected. The x factor was a friendly interpretation of the European Central Bank's (ECB) policy announcement.

The ECB is the European equivalent of the Fed. They hiked rates, but the hike was fully expected. In delivering the hike, their comments were taken to suggest it might be the last hike. European bonds improved significantly, and while that doesn't directly benefit rates in the US, there is always some spillover.

In other words, the strength in the European bond market helped to limit the weakness in the US bond market. Thus, rates moved higher today, but not as much higher as they otherwise would have.

Outright levels are still historically high with the average lender well into the 7% range for a top tier 30yr fixed scenario.