MORTGAGE RATE WATCH

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Mortgage Rates Break 5 Day Losing Streak, But Remain Elevated

If we overlook the nearly unchanged performance from last Friday, mortgage rates were on a 5 day losing streak as of yesterday afternoon with the 30yr fixed rising about a quarter of a percent. That streak ended today as the bond market responded to favorable inflation data and tame comments from the Fed.

We can also consider that some of the recent upward momentum was a factor of this week's Treasury auction cycle which ended yesterday afternoon. Mortgage rates are based on bonds that tend to correlate with US Treasuries and the latter certainly took some directional cues from this week's scheduled Treasury auctions.

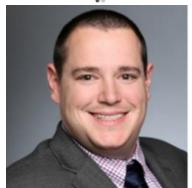
Speculation aside, there was a clear reaction to this morning's quarterly PCE Price Index revision. Even though this data is "stale" by most standards, a mere 0.1% revision lower helped rates drop by 0.05% on average. While that's a solid victory for a single day, it means that rates remain in much higher territory versus last week.

Tomorrow morning brings the more timely, monthly version of the same PCE inflation data. It will be a new release for the month of April whereas yesterday's data was Jan-Mar. If it is 0.1% lower than expected, that would likely be a much bigger deal for bonds and rates, but there's an equal chance of an opposite result. Volatility potential is elevated either way.



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