

# MORTGAGE RATE WATCH

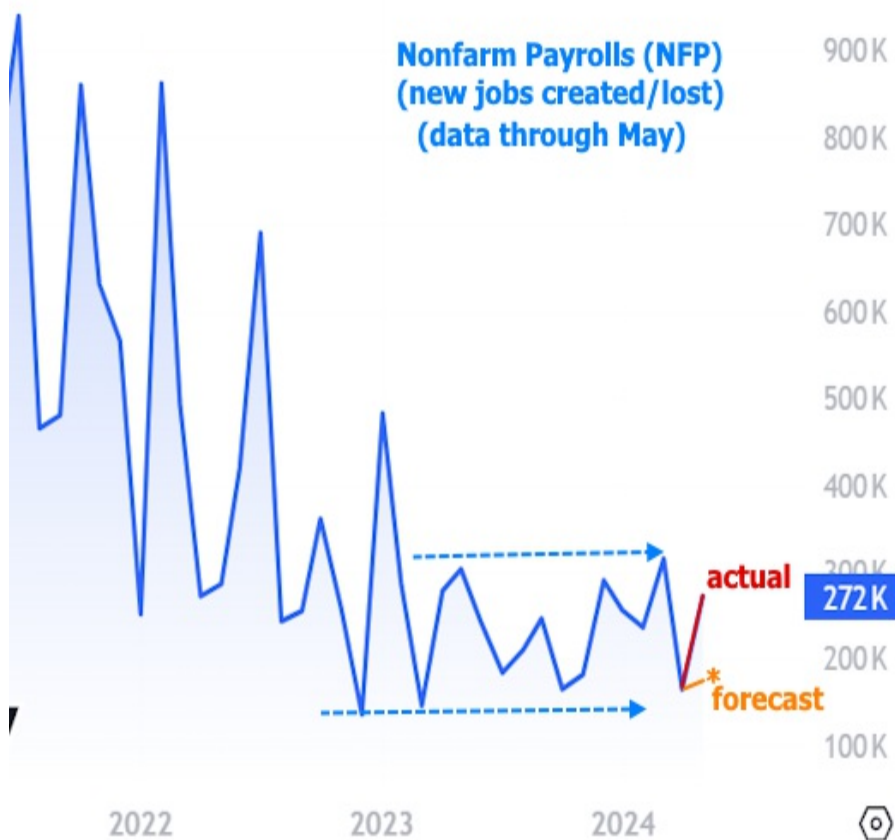
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## Rate Optimism Put To The Test by Jobs Report

There's a strong case to be made for the fact that interest rates had a sunny predisposition this week. In practical terms, that simply meant giving more credence to rate-friendly news and trying harder to overlook unfriendly news.

But the predisposition was put to the test in a major way with the week's most significant economic report today. Nonfarm Payrolls (NFP) is the headline component of the Labor Department's Employment Situation report. There are many reports that pertain to the jobs market, but this one is infinitely more important than the rest and this time around, NFP came in **much** higher than expected.

While the chart of nonfarm payrolls looks range-bound, and while the job count has been much higher in the past few years, Friday's result of 272k represented an uncommonly large "beat" versus the median forecast of 185k, and a big jump from the previous reading of 165k.



A move like this makes it seem like the labor market is too resilient to offer much help to the inflation problem (more jobs, more money, more spending, etc.). Finally, the bond market's sunny outlook saw a cloud too big to ignore.



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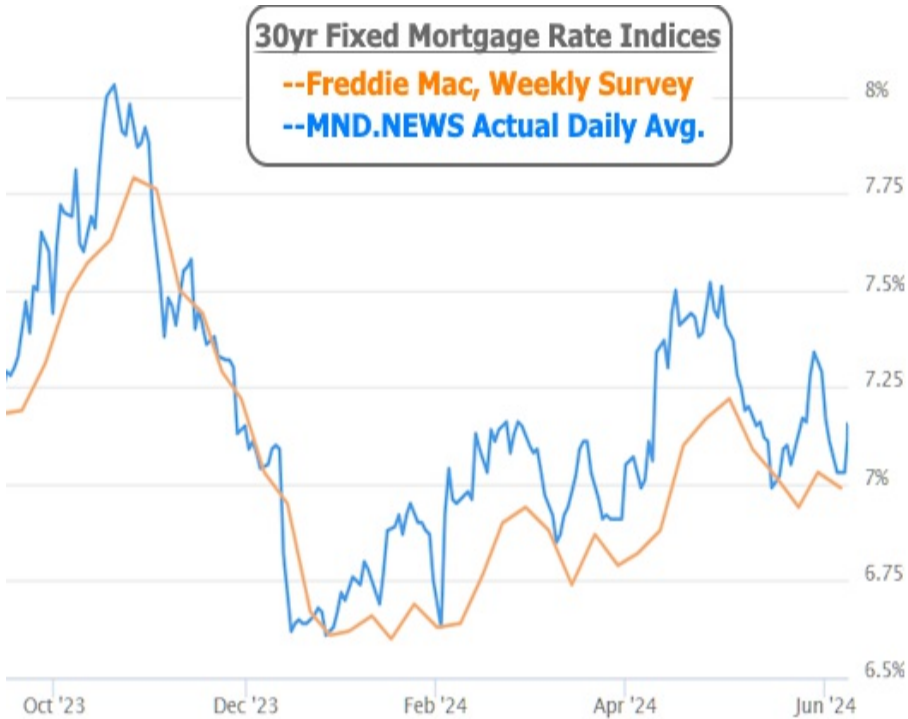
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### 10yr Treasury Yield



With that, mortgage rates had their first (and only) motivation of the week to move higher.

### 30yr Fixed Mortgage Rate Indices



But the chart above also illustrates the silver lining. Specifically, even though rates jumped on Friday, they're not even halfway back to last week's highs, let alone the higher highs seen at the end of April. Part of the justification for such resilience is that the bond market will defer to inflation data (and the Fed's interpretation of it) above all else in deciding how worried to be about impediments to lower rates.

On that note, the timing couldn't be much more highly charged. Next Tuesday brings the Consumer Price Index (CPI), which is the only economic report on any given month that's been more of a market mover than the Employment Situation in the current environment. One day later, we'll get an updated "dot plot" from the Federal Reserve (a chart of each Fed member's projections for the Fed Funds Rate for the end of the year and the next few years).

The Fed will also be releasing a policy statement, but there's no chance of a rate cut/hike this time. As such, the market's reaction to Fed Day will be all about the dots and Fed Chair Powell's customary press conference that follows 30 minutes later.