

MORTGAGE RATE WATCH

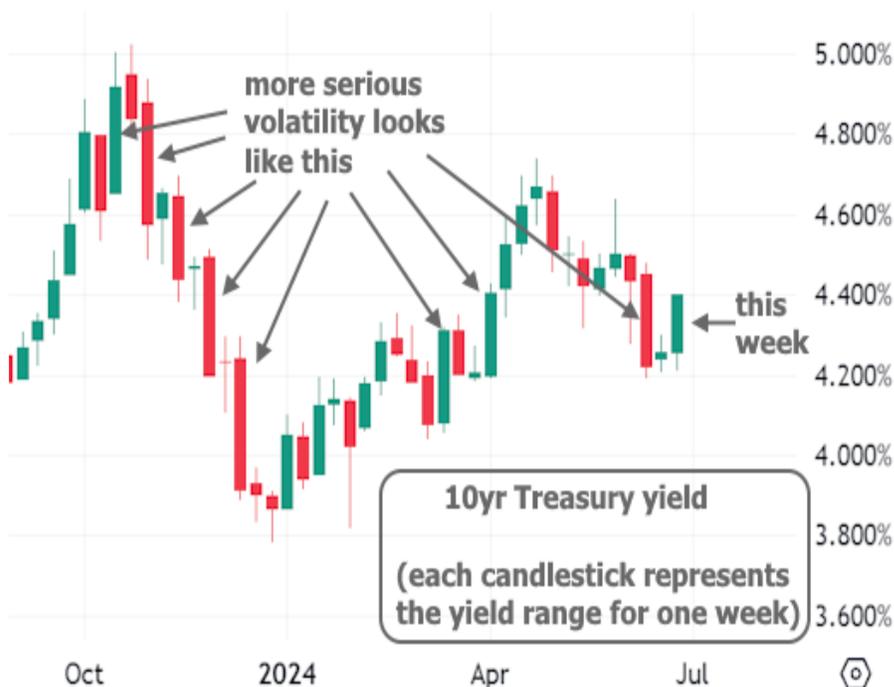
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Mortgage Rates Are Actually Higher This Week

The week began with a distinct absence of interest rate volatility, but things changed in a big way by Friday--at least compared to the previous week which was exceptionally quiet.



In the bigger picture, however, it was just another week that felt volatility in the short term due to a surprising rate spike on Friday.



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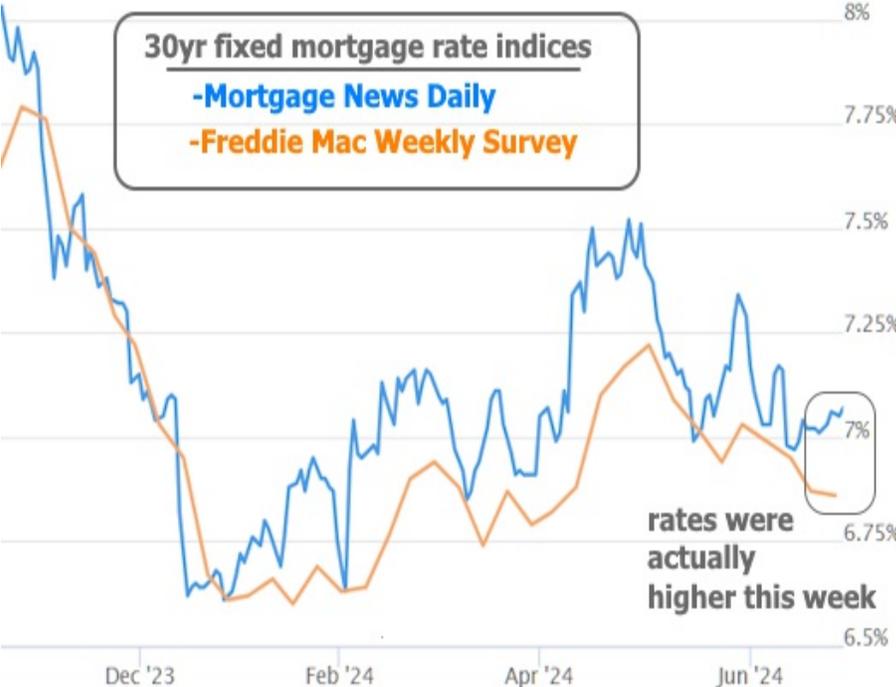
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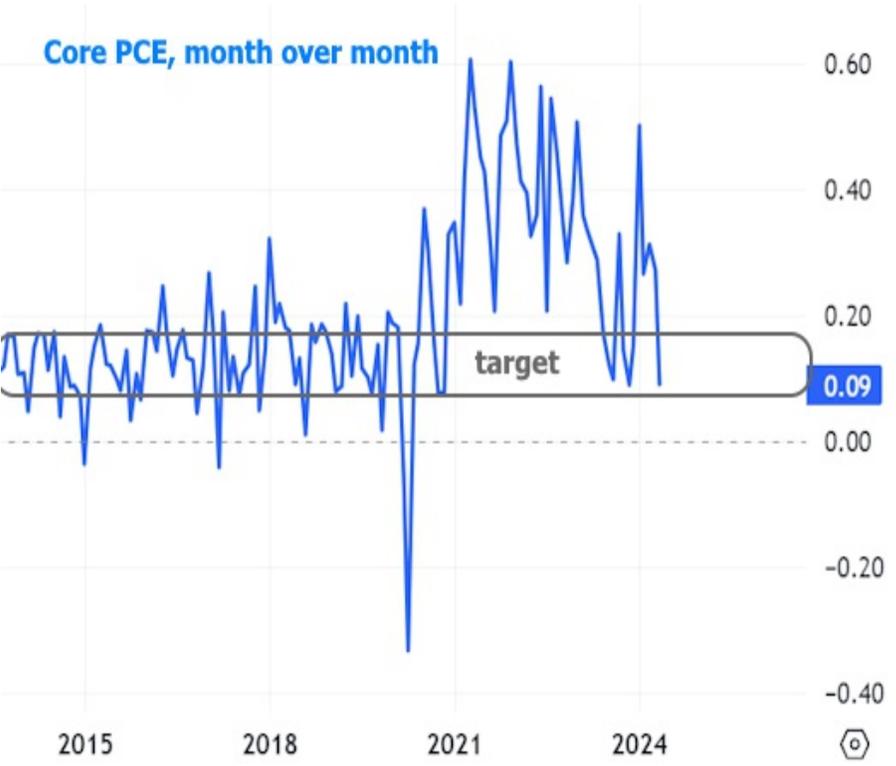
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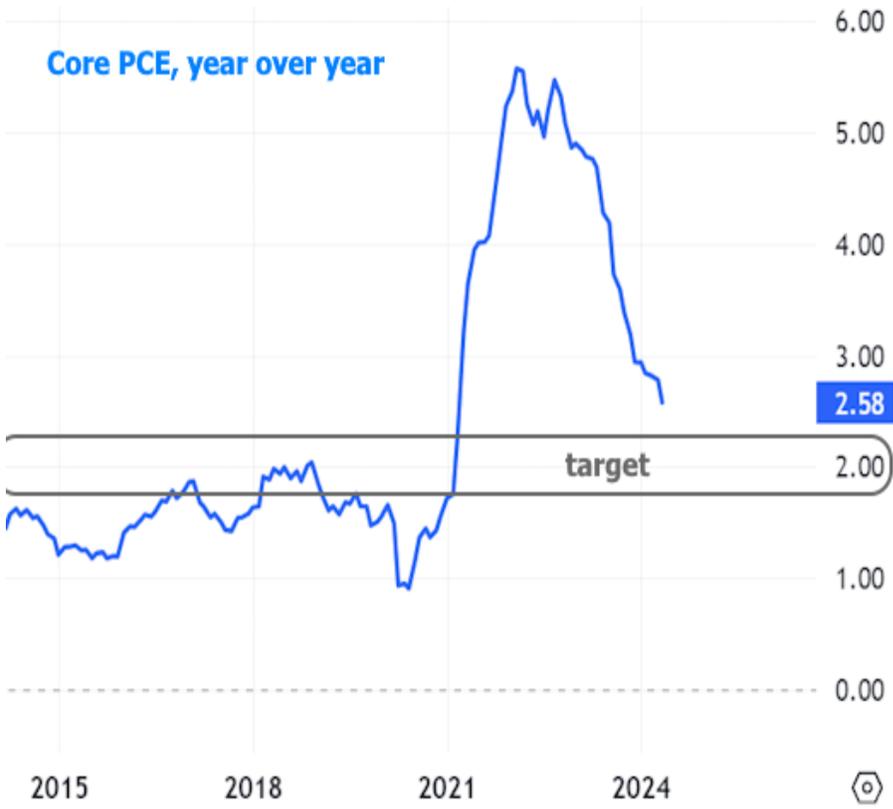
Incidentally, the fact that this week's rate spike occurred at the end of the week means that Freddie Mac's weekly mortgage rate index missed detecting the shift. More timely daily data shows average mortgage rates trending slightly higher this week as opposed to lower.



The most eagerly anticipated data was the PCE price index for May. This is a similar measure of inflation to CPI (the Consumer Price Index) that came out 2 weeks ago. Core PCE, which excludes more volatile food and energy prices, was even more favorable for the inflation outlook.



The chart above may make it seem that inflation has returned to the target level, but success is measured by the year over year numbers hitting 2%. The Fed has indicated it would consider rate cuts when it was more confident about hitting 2%. We're definitely not there yet, but arguably getting closer.



Friday afternoon saw an abrupt reversal in rates tied to the compulsory trading that often creates volatility at the end of a month/quarter (Friday was both). There is no rhyme or reason to month-end trading when it comes to a typical impact. In other words, it can be good or bad for rates. We don't get to know ahead of time. This time it was bad.

Some rate watchers entertained the notion that the presidential debate had an impact, but while that may have contributed to market volatility, the timing of the volume and volatility makes a strong case for month/quarter-end trading. Simply put, if the debate were the x factor, we would not have expected the market to wait until the times of day typically associated with month-end trading to make the biggest trades.