Mortgage Rates Continue to Recover, But We Could See Big Moves Tomorrow, Depending on Data

If you're just here to keep an eye on daily changes in mortgage rates, today was solid. There was a modest improvement versus yesterday and the average lender is almost perfectly in line with 6.5% when it comes to top tier conventional 30yr fixed rates.

For those interested in more of the nuts and bolts, today's improvement came in response to a lower-than-expected reading in this morning's key economic report, the Producer Price Index (PPI). PPI measures inflation at the wholesale level and occasionally has a fairly decent impact on rate when the results are much higher or lower than forecast. Today's results were lower. Bonds/rates hate inflation. As such, rates improved after these results.

But there is another inflation report that packs a much bigger punch than PPI and it will be out tomorrow morning. The Consumer Price Index (CPI) measures inflation at the retail level. Along with the similar PCE inflation that will be out in 2 weeks, CPI represents the inflation metric that the Federal Reserve would like to see at 2%.

To be clear, year over year core inflation has no chance of hitting 2% tomorrow, but monthly inflation readings would merely need to keep doing what they've been doing in order for the Fed to be convinced that 2% annual inflation is a near certainty.

There's no way to know ahead of time whether the data will be friendly or damaging--only that CPI is responsible for some of the biggest spikes and drops over the past few years.

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