Mortgage Rates Lower Despite Bond Market Weakness

On Wednesday, the average mortgage lender was quoting top tier, conventional 30yr fixed rates at the 2nd lowest level in more than a year. That's counterintuitive considering the modest losses in the bond market (weaker bonds = higher rates, all other things being equal).

The explanation comes down to simple timing. Bonds were improving enough yesterday afternoon for many lenders to offer mid-day improvements. Between the lenders who were tentative in that approach and those who abstained altogether, there was still some room for improvement.

More importantly, the bonds that directly affect mortgage rates actually began the day in slightly stronger territory. They've since lost some ground, but not enough for most lenders to issue mid-day changes in the other direction. Keep in mind, this does mean that the average lender would need to offer slightly higher rates tomorrow assuming the bond market is perfectly unchanged between now and then.

How likely are we to see a perfectly unchanged bond market? It's always possible, but it's less likely on Thursday due to the scheduled release of more important economic data. Bonds take reliable cues from econ data and there hasn't been anything substantial so far this week. The relevance ramps up on the final two days and the following week will bring even higher stakes.

Zachary Kempf
Capital Markets Analyst,
Plains Commerce Bank
plainscommerce.com
P: (605) 271-7939
3905 W 49th St
Sioux Falls SD 57106