MORTGAGE RATE WATCH
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Mortgage Rates Completely Reverse Yesterday's Spike

Mortgage rates jumped quickly higher yesterday following the higher inflation reading in the Consumer Price Index (CPI). Now today, rates have completely erased the move despite a similar report, the Producer Price Index (PPI) seemingly adding fuel to the inflationary fire.

PPI is almost never as big of a deal as CPI when it comes to pushing rates around. That's still true today, even though rates ultimately moved more than they did yesterday.

Specifically, CPI resulted in a bigger, sharper initial move in the underlying bond market that was slowly backtracked afterword. Contrast that to today's PPI which prompted a bond market shift that was less than half as big, but that happened to be followed by additional, gradual movement in the same direction.

Interestingly, PPI showed much higher annual inflation than expected, and that should have sent rates even higher. The monthly PPI, however, was on-target. More importantly, the components of the PPI data that have a bearing on core consumer inflation were much lower.

The bottom line to the paradoxical reaction is that math allows traders to get a really good idea of the forthcoming PCE data (yet another inflation report, and the one the Fed watches most closely) based on CPI and PPI. And in this week's case, that math says PCE will be lower than previously expected. When and if that's revealed to be the case, it would provide a rate-friendly counterpoint to yesterday's troublesome CPI data. This is what the market was actually trading this morning as opposed to a PPI reaction in a vacuum.

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