MORTGAGE RATE WATCH

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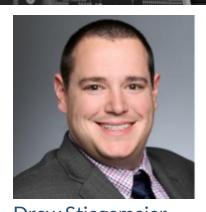
Mortgage Rates Finally Stop Moving Lower, But Just Barely

Stop the presses! Mortgage rates actually moved HIGHER today! While it's the first time we've been able to say such things since last Tuesday, the damage is almost imperceptible. In fact, if we compare today's rates to yesterday morning's they're identical to slightly lower. Today's rates are only worse when compared to the slightly lower rates seen after yesterday's mid-day improvements.

In general, lenders prefer to set mortgage rates once per day and hope the underlying bond market doesn't move enough to force a mid day reprice (a positive or negative adjustment). The bigger the bond market move, the more lenders will be inclined to reprice.

Today's movements weren't big enough for reprices, so the morning mortgage rate offerings stayed in effect throughout the day. Bonds were only modestly weaker, thus the minimal change in rates. Bottom line, for all practical purposes, today's rates are still the lowest since early December.

Tomorrow brings this week's best and final chance to see some volatility, for better or worse. The PCE Price Index for January will be released at 8:30am ET. This is the most important economic report of the week and one that began having an impact on rates 2 weeks ago when traders gleaned clues from other inflation reports that suggested PCE would look better than its more timely counterparts.



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If that was confusing, here's a breakdown:

CPI and PPI are the two other inflation indices that come out 2 weeks before PCE. They're more timely, but not as robust in terms of the data covered. They also have a bearing on PCE if you know which details to include and ignore. When traders did that math, they concluded that PCE would paint a slightly better picture for inflation. Because of that, rates were able to move lower on a week with higher inflation numbers.

If you're wondering if that means that the market has already preemptively experienced the positive reaction to tomorrow's data, that's a valid consideration. The market can't ever perfectly account for the future. There are equal odds of rates moving higher or lower. That said, it could be the case that an unfriendly surprise in tomorrow's data hurts us more than a friendly surprise would help.