MORTGAGE RATE WATCH
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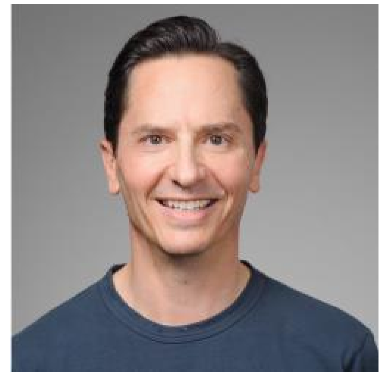
Mortgage Rates Fall as Inflation Data Comes in Soft



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After a calm start to the week on Monday and Tuesday, we were likely to see a bit more volatility on Wednesday due to important events on the calendar. The first was the morning's release of the Consumer Price Index (CPI), a key inflation report.

Inflation is one of the most basic inputs for the bond market. Bonds, in turn, dictate interest rate movement. In general, higher inflation coincides with higher rates and vice versa.

Today's inflation data came out much lower than the market anticipated. Bonds improved quickly in response thus allowing mortgage lenders to offer lower rates.

The average lender is back in line with levels seen on June 5th.

The second important event was the scheduled 10yr Treasury auction. Treasuries are bonds that correlate well with mortgage-specific bonds. As such, a decisive move in 10yr Treasury yields usually means mortgage rates are making similar moves.

Today's auction didn't add too much benefit over what was already in place after the inflation data, but it certainly didn't hurt. If anything, the average lender is holding back just a bit relative to where they would normally be given the market's trading levels. This is fairly normal when trading has been volatile. If bonds maintain these gains tomorrow, we could see additional improvements (emphasis on "if").