MORTGAGE RATE WATCH
Daily Coverage. Industry Leading Perspective.

Mortgage Rates Mostly Sideways After Dodging Mid-Day Drama

Roland Wilcox
Owner / Loan Officer,
Sierra Capital Mortgage Co.
P: (626) 449-8545
1055 E. Colorado Blvd.
Pasadena CA 91106
245214

This morning brought another inflation report. Given the negative reaction to yesterday's inflation data, there was some cause for concern. Thankfully, today's data was more unequivocally acceptable for the bond market and--thus--interest rates. Bonds improved fairly well into the late AM hours, but then, the drama!

Actually, there wasn't much drama for mortgage rates, but behind the scenes, lenders came very close to making mid-day adjustments toward higher rates. Some of them actually did, but most of those lenders later reversed course after the drama faded.

So what was it? In a nutshell, Trump discussed firing Fed Chair Powell with some other lawmakers. Word got out. Markets reacted.

Folks who follow this kind of stuff closely were not surprised to see that neither stocks nor longer term bonds (the stuff that dictates mortgage rates) were happy. To be clear, 10yr Treasury yields moved HIGHER, not lower, even though the assumption is that Powell's replacement would be more interested in cutting the Fed Funds Rate.

This is just the latest confirmation of something we often repeat: the Fed Funds Rate does not dictate mortgage rates even though the two can generally and broadly correlate over time.
It's VERY important to note that the broad correlation is due to the fact that mortgage rates and the Fed Funds Rate share common motivations. If the Fed were to cut rates in a more arbitrary way (one that shows less regard for those motivations), it could actually be bad for longer term rates like mortgages. And today, it almost was!

There are a few reasons it could be bad. One has to do with relative impact on inflation. All else equal, a lower Fed Funds Rate suggests more inflation than a higher Fed Funds Rate. Bonds/rates hate inflation and rates will rise in the presence of excess inflation regardless of the Fed Funds Rate.

Trump ultimately issued a statement saying that, although he did discuss this stuff, he's not actually considering firing Powell. Stocks corrected fully, but bond traders remained somewhat more defensive. Fortunately, mortgage backed bonds recovered most of their losses for reasons that are much more esoteric than this already-fairly-esoteric explanation.

Bottom line, rates held relatively steady today despite getting a taste of the sort of volatility that could follow any fully-realized Fed Chair ouster.

© MBS Live, LLC. All rights reserved. This newsletter is a service of MBS Live.