

MORTGAGE RATE WATCH

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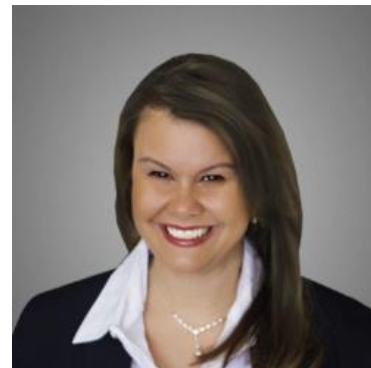
Mortgage Rates Hold Steady After Key Inflation Report

Pundits, politicians, and everyone else can continue to assume that mortgage rates will respond to changes to the Fed Funds Rate. Meanwhile the bonds that actually dictate mortgage pricing will continue responding to the most important economic reports. The two biggest examples are the monthly jobs report and today's release of the Consumer Price Index (CPI).

To be fair to those who are overly-focused on the Fed, there is a correlation between this data and the Fed's decision-making process. In other words, today's rates were at risk of moving higher or lower for the same reasons that the Fed might be more or less likely to cut rates in September. The Fed attempts to balance unemployment and inflation, in not so many words. Today's CPI showed that inflation has yet to fall decisively enough to guarantee a rate cut. On the other hand, it didn't rise enough to take a rate cut off the table.

In short, CPI was mixed. Some components showed tariff impacts and a costlier services sector. Other components showed ongoing softening in major categories such as housing-related expenses. The odds of a Fed rate cut actually improved for September. Shorter-term bonds also improved (no surprise, as they are highly correlated with Fed rate expectations).

But longer-term bonds (which includes the bonds that dictate mortgage rates) held steady. When this is the case, mortgage rates will almost always be roughly unchanged on the day.



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