

Can The Fed Pull Mortgage Rates Off The Ceiling?

Mortgage rates were surprisingly steady on Tuesday with most lenders roughly in line with Monday's levels. Why surprising? Because the bond market was noticeably weaker and bonds dictate day to day mortgage rate movement.

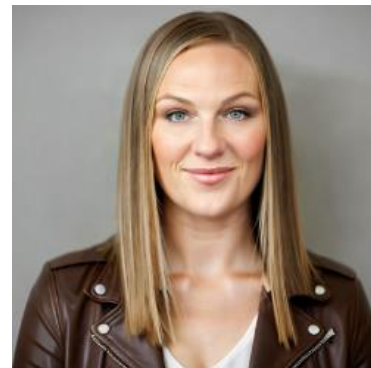
In Tuesday's case, we can actually reconcile the steadiness with the timing of bond market movement. Specifically, bonds didn't lose ground until after the 10am release of the Job Openings data from the Bureau of Labor Statistics. Most mortgage lenders consider bond market levels before 10am when setting rates for the day.

The implication is that if bonds are at the same levels tomorrow morning, the average lender would set rates higher.

Tomorrow afternoon brings another potential source of volatility in the form of the latest Fed announcement. The most important thing to understand about tomorrow's probably Fed rate cut is that it is NOT a mortgage rate cut. In fact, mortgage rates have been more likely to move higher following recent Fed cuts.

Even then, the cut itself is not the news the market is waiting for. Rather, traders are interested to see each Fed member's rate outlook via the quarterly release of the Fed's economic projections. In addition, every Fed meeting includes a press conference with the Fed Chair and bonds have often made the biggest moves in response.

Bottom line: the rate cut means nothing for mortgage rates. Volatility will come from the 2pm ET dot plot (the chart that shows each Fed members' rate outlook) and the 2:30pm press conference.



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