

MORTGAGE RATE WATCH

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A message from Marc Erickson:

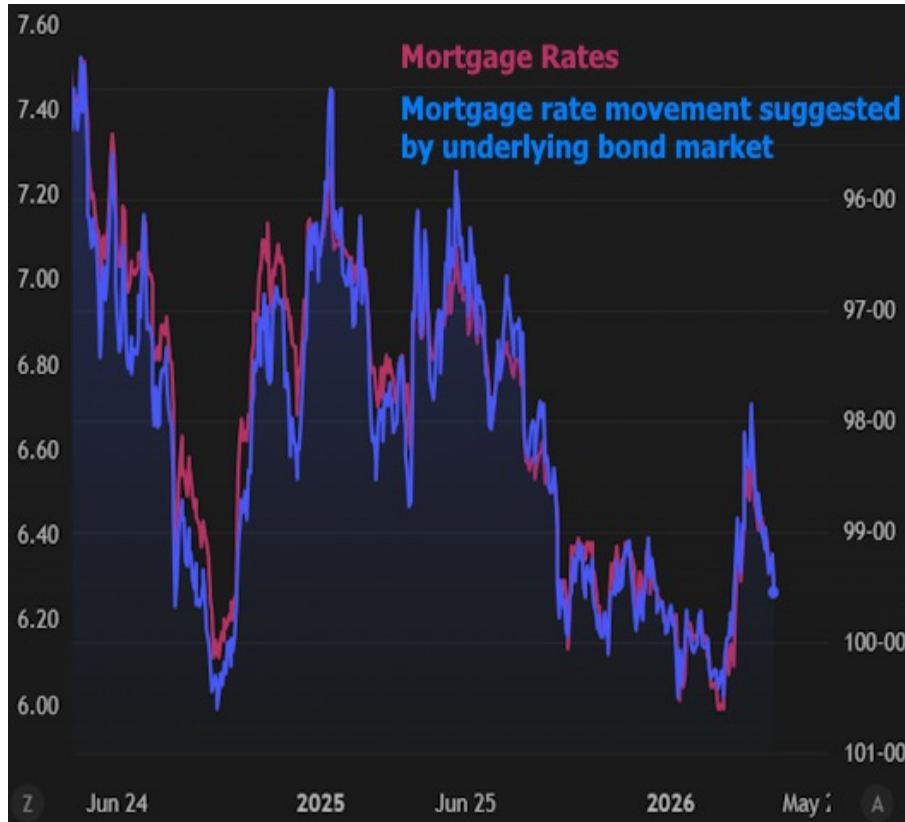
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Lowest Rates in Over a Month Despite Small Move Today

Today was a victory for mortgage rates, but not nearly as much of a victory as the underlying bond market would suggest. The good news is that the end result is the lowest average 30yr fixed rate in just over a month.

The other news isn't bad, per se, but it is a bit confusing.

As we often discuss, mortgage rates are based on bonds because mortgages "turn into" bonds in order to be traded on the secondary market. You don't need to understand that process in detail to accept that it's true. Case in point, here's a chart* that overlays our average 30yr fixed rate and the most prevalent mortgage-backed security (a bond comprised of a pool of multiple mortgages).



Zooming in on Friday, we see bonds breaking lower at a faster pace than mortgage rates.



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This is actually very normal behavior for mortgage rates--especially when they're falling into the lowest territory of the past few weeks. If the bond market gains are maintained next week, rates should increasingly be willing to close the gap. Conversely, if bonds bounce in the other direction, rates likely will as well, but they'll have some cushion and may not need to bounce as quickly.

** in both of today's charts, the right axis shows mortgage-backed securities PRICES. In the bond market, price varies inversely with yield (i.e. higher prices = lower rates). As such, the right axis is inverted (higher values at the bottom) in order to highlight the correlation with rates on the left axis. Otherwise, the chart would look like a Rorschach test and it would be impossible to detect these subtle changes.*