Mortgage Rates Drop to Week's Best Levels

Mortgage rates finally had a decent day on Thursday after spending the previous three days inching into the highest levels in more than a year. Part of the improvement was due to comments from Fed Governor Chris Waller who said that it wouldn't be necessary to hike rates at the next meeting unless inflation data surprises to the upside.

Before that, the underlying bond market was already showing some resilience in overnight trading. The prevailing pattern has been a fairly reliable correlation between bond yields and oil prices. But this time around, yields held fairly steady in the overnight session even though oil prices moved higher.

Mortgage rates are based on bonds, and mortgage-specific bonds correlate almost flawlessly with 5-10yr U.S. Treasuries on any given day. The net effect was a return to the week's lowest levels for a top-tier 30yr fixed rate at the average lender.

Good news notwithstanding, risks remain on the horizon. Friday morning brings important economic data in the form of the jobs report. Next week's inflation data will be just as critical. As always, data-related volatility cuts both ways. If it's much weaker than expected, rates would likely continue lower. But if it's much higher than expected, rates would likely make new highs.



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