Mortgage Rates on Two Day Losing Streak. Lock Bias Stands

By: Victor Burek | Thu, Feb 18 2010, 5:24 PM

Mortgage rates moved higher yesterday morning...and then they moved even higher yesterday afternoon! The day began with mortgage-backed securities prices moving lower, which forced lenders to increase consumer borrowing costs before many rate watchers had a chance to get to a computer. Later in the day, after the Fed released the minutes of the most recent FOMC meeting, MBS prices fell further, which brought on reprices for the worse and pushed mortgage rates up a few more basis points. To remind readers, as prices of mortgage-backed securities move higher, lenders are able to offer lower mortgage rates, however as prices decline, they are forced to raise borrowing costs.

Like yesterday, we had another busy day of data today.

This morning we received the Weekly Jobless Claims report. Recent data has indicated extended weakness in the labor market as jobless claims have failed to improve in 2010. Last week's report did surprise for the better though as new claims fell by 43,000 to 440,000. This report provides three measures of the labor market:

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1. **Initial Jobless Claims**: totals the number of Americans who filed for first time unemployment benefits.
2. **Continued Claims**: totals the number of Americans who continue to file due to lack of finding a new job
3. **Extended Claims**: totals the number of Americans who have exhausted their traditional benefits and our now receiving emergency benefits.

Last week's positive progress was reversed in today's data as many more people than anticipated filed for first time unemployment benefits. 473,000 people filed initial jobless claims, economists expected a reading of 438,000, compare that to last week's revised for the worse print of 442,000. That is a gain of 31,000! Continued claims edged higher to 4.56 million from 4.54 million and the number of folks receiving extended benefits rose 274,500 to 6 million. This is a troubling report for the jobs sector as hiring by firms is not appearing and businesses remain reluctant to hire new staff. For more on this report, check out this morning's MBS Commentary.

Released at the same time was a report that provides a measure of inflation on the producer level: The Producer Price Index. PPI measures the changes in prices that manufacturers and wholesalers pay for goods during different stages of production. If businesses have to pay more for the materials they use to produce their widgets …they may be forced to pass along those additional costs to you…the consumer. Although inflation at the producer level does not always lead to higher prices paid by consumers, as producers are reluctant to pass along higher costs during bad economic times. As stated before, inflation is one of the largest enemies of low interest rates.

The release indicated that inflationary pressures on the producer level were higher than expected last month. The overall PPI posted a monthly increase of 1.4% when only a 0.8% increase was expected. When excluding food and energy (Core PPI), prices increased 0.3%...the market was expecting a 0.1% rise. It will be interesting to see if producers have been able to pass these higher costs along to consumers. We will not have to wait long to find that out, the Consumer Price Index is released tomorrow. With unemployment hovering around 10% and consumers having less disposable income to spend, goods producers have found it quite difficult to pass along these higher costs to their clients.

The next report of the day came from the Conference Board: Leading Indicators. This is a composite index of 10 economic indicators that are expected to provide a forward looking indication of economic activity. If the month over month change is positive, it indicates the economy is improving. Most of the components of this report have already been released so this doesn't give us much new information. Economists were expecting an increase of 0.5% following last month's 1.1% gain...they got a 0.3% uptick. Although not as strong as forecast, this was the 10th consecutive increase for the Leading Indicators Index. Our economy continues to stabilize from record low levels of output.

The final economic release of the day gives was a measure of the strength of manufacturing in the Philadelphia region. Readings above 0 indicate improving conditions while readings below 0 indicate contraction. Recent reports have shown manufacturing conditions to be improving, and not just in the Philly region, in all regions! Economists surveyed expected a slight rise this month from last month's 15.2 print to 17.0 in February. The actual report indicated business conditions in the Philly region are slightly better than expected, the index came in at 17.6.

The final event for the day was an announcement from the Department of Treasury on the size of next week's debt offering. When our government doesn't have the money to pay for spending, they borrow money by issuing Treasuries. The added supply of debt on the market can pressure both treasury and mortgage yields higher. Market participants were expecting no change in auction amounts, for a total $118 billion, which is exactly how much was announced at 11am by the Treasury. Here is the breakdown:

NEXT TUESDAY: $44billion 2 year notes

NEXT WEDNESDAY: $42billion 5 year notes

NEXT THURSDAY: $32billion 7 year notes all the same as last offering

There will also be an $8 billion 30 year TIPS auction on Monday.

Just like yesterday, mortgage rates moved higher at the open today...and then even higher later in the day as MBS prices fell further and lenders had to reprice for the worse. MBS pricing took a beating today and so did lender rate sheets! While not completely confirmed, this looks to be the beginnings of all interest rates moving higher.

Reports from fellow mortgage professionals indicates lender rate sheets to be worse than yesterday. The par 30 year fixed rate mortgage does remain in the 4.875% to 5.125% range for well qualified consumers, but those rates will cost a few more basis points at closing. To secure a par interest rate on a conventional mortgage you must have a FICO credit score of 740 or higher, a loan to value at 80% or less and pay all closing costs including an estimated one point loan origination/discount/broker fee. You may elect to pay less in fees but you will have to accept a higher interest rate.

With so much weakness in the interest rate market over the past two days, many are hopeful for a recovery bounce and short term rate correction. While we could see scattered periods of marginal improvements in mortgage rates, the overall trend points toward higher rates. I continue to favor locking over floating...even if you are 45 or 60 days outside of closing.

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