

# MARKET BRIEF

June 1, 2010

## Timely Topics

### Fed's Evans Says Policy Easing Was Not Enough

The U.S. central bank's liquidity support was helpful in containing the 2008 financial crisis but it could have done more, Federal Reserve Bank of Chicago President Charles Evans said on Tuesday.

"While the liquidity support we provided the economy was very helpful, it was clearly not enough," Evans, who is not a voting member of the U.S. interest rate-setting panel, said during a panel session at a seminar in Seoul.

"Given the huge resource gaps, and low and declining inflation, more monetary accommodation was appropriate," he added. He did not comment on the future policy of the Federal Reserve or on the economic situation.

He said the recent re-opening by the Federal Reserve of currency swap lines with the European Central Bank and a few others was necessary to deal with the potential rise in dollar funding pressures in world markets.

"This step seems prudent as the dramatic repricing of the sovereign credit risk of some peripheral European countries has the potential to create dollar funding pressures in world markets," he said.

## Economic Update

### Important Markets

#### DOW Jones Industrial

Start of week	10193.39
End of week	10136.63
Change	(56.76)

#### NASDAQ

Start of week	2229.04
End of week	2257.04
Change	28.00

#### 30-Year Bond

Last week	4.08
This week	4.24

1 Yr T-Bill 0.320%

Prime Rate 3.250%

11<sup>th</sup> Dist COF 1.859%

6 Mo. LIBOR 0.696%

**Last Week:** Stocks made some dramatic swings Friday, but the broader market failed to find enough support to prevent a sharp loss that secured its worst monthly performance since February 2009.

**What's Ahead:** This holiday-shortened week brings us the release of five important economic reports for the markets to digest. Two of the five are considered to be of very high importance to the bond market and mortgage rates.

The Institute for Supply Management's (ISM) manufacturing index will be posted late Tuesday morning. This highly important index measures manufacturer sentiment. A reading above 50 means that more surveyed manufacturing executives felt that business improved during the month than those who felt it had worsened. Analysts are expecting to see a 58.9 reading in this month's release, meaning that sentiment fell slightly during May. A smaller reading will be good news for the bond market and mortgage shoppers while an unexpected increase could contribute to higher mortgage rates Tuesday.

The revised 1st Quarter Productivity and Costs data is the first of three reports that will be released Thursday morning. This data measures employee output and employer costs for wages and benefits. It is considered to be a measurement of wage inflation. It is believed that the economy can grow with low inflationary pressures when productivity is high. Last month's preliminary reading revealed a 3.6% increase, but I don't think this piece of data will have much of an impact on the bond market or mortgage pricing unless it varies greatly from its forecasted revised reading of 3.4%.

Friday's sole report is arguably the single most important report that we see each month. The Labor Department will post May's Employment data early Friday morning. This report gives us key employment readings such as the U.S. unemployment rate and the number of jobs added or lost during the month. Analysts are expecting to see the unemployment rate slip from 9.9% in April to 9.8% this month with approximately 500,000 jobs added to the economy during the month. A higher than expected unemployment rate and a smaller number than 500,000 in new payrolls would be great news for the bond market. It would probably create a sizable rally in bonds, leading to lower mortgage rates Friday. However, stronger than expected numbers may lead to a spike in mortgage rates Friday morning.



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