

# MARKET BRIEF

June 7, 2010

## Timely Topics

### Increasingly Hawkish Fed Ponders Raising Rates

Three top Federal Reserve officials said on Thursday it may soon be time to begin raising interest rates as the economic recovery in the United States gathers momentum, despite persistently high unemployment.

Thomas Hoenic, president of the Kansas City Fed, argued the U.S. central bank should raise benchmark borrowing costs from near zero to 1 percent by the end of summer.

The head of the Atlanta Fed, Dennis Lockhart, said policymakers should soon begin thinking about tightening monetary policy, though he stopped short of calling for an imminent move.

"Based on the current outlook consensus, it seems reasonable that the economy would be well-positioned to accept this modest increase in the funds rate," Hoenic said in remarks to a business lunch in Bartlesville, Oklahoma, expounding on his view on raising the benchmark federal funds lending rate to 1 percent.

Lockhart also warned of the threat from inflation.

"As the economy continues to improve and financial markets find firmer ground, extraordinarily low policy rates will not be needed to promote recovery and will become inconsistent with maintaining price stability," Lockhart told local business leaders at the Atlanta Technical College.

So while monetary tightening "right now, at this moment, is not called for," he said, "we may be getting closer to that point, particularly as we continue to grow."

## Economic Update

### Important Markets

DOW Jones Industrial	
Start of week	10136.63
End of week	9931.97
Change	(204.66)
NASDAQ	
Start of week	2257.04
End of week	2219.17
Change	(37.87)
30-Year Bond	
Last week	4.24
This week	4.13
1 Yr T-Bill	0.320%
Prime Rate	3.250%
11 <sup>th</sup> Dist COF	1.825%
6 Mo. LIBOR	0.749%

**Last Week:** Sellers reclaimed control of the stock market after it had put together solid back-to-back gains. The change in tone came amid renewed concerns about contagion in Europe and disappointing nonfarm payrolls data.

**What's Ahead:** The most important news will be posted late in the week, so we may see the most movement in rates during those days. The first part of the week will likely be driven by stock market gains or losses.

May's Retail Sales data will be released early Friday morning. This very important report measures consumer spending, which is highly relevant to the bond market because consumer spending makes up two-thirds of the U.S. economy. Analysts are expecting to see that sales rose 0.3% last month. A smaller than expected rise in sales would be good news for the bond market and could lead to lower mortgage rates Friday.

The last report of the week is June's preliminary reading to the University of Michigan Index of Consumer Sentiment late Friday morning. This index measures consumer willingness to spend and usually has a moderate impact on the financial markets. It is expected to show a reading of 74.8. A smaller than expected reading would be considered good news for bonds, but since this report is only moderately important it likely will not influence mortgage rates considerably.

Overall, it likely is going to be a fairly busy week for the financial markets, but the most action will probably come in the latter days. Friday will probably be the single most important day of the week, but as we have seen over the past couple of weeks, we don't need significant news from economic reports for the markets to move heavily and mortgage rates to change.



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