

# MARKET BRIEF

June 14, 2010

## Timely Topics

### Banks Trim Emergency Borrowing From Fed

Bank borrowing from the Federal Reserve's emergency lending program over the past week fell to the lowest point in more than two years, further evidence that credit markets are improving.

The Fed said that banks averaged \$105 million in borrowing for the week ended on Wednesday. That was the lowest borrowing since it averaged \$23 million for the week ended March 12, 2008, before the credit crisis struck with full force.

Loans from the central bank's emergency lending program, known as the discount window, had surged to a high of \$110 billion a day during the height of the financial crisis in the fall of 2008. At the time, banks found their customary sources of credit frozen. The \$105 million average borrowing for the week ended Wednesday was down from an average of \$678 million in borrowing for the previous week.

With financial and economic conditions improving, the Fed has been winding down its special lending programs. The largest of these efforts is a \$1.25 trillion program to purchase mortgage-backed securities issued by Fannie Mae and Freddie Mac in an effort to lower mortgage rates and provide a boost to the depressed housing market. The new report showed that those holdings averaged \$1.11 trillion daily for the week ended Wednesday, up by \$138 million from the average for the previous week.

Some economists have worried that mortgage rates would start rising once the Fed's purchases of mortgage-backed securities end. But Fed officials have stressed that even after new purchases end, the central bank will be holding a sizable portfolio of these types of securities that will continue to provide support for the

## Economic Update

### Important Markets

DOW Jones Industrial	
Start of week	9931.97
End of week	10211.07
Change	279.10
NASDAQ	
Start of week	2219.17
End of week	2243.60
Change	24.43
30-Year Bond	
Last week	4.13
This week	4.15
1 Yr T-Bill	0.290%
Prime Rate	3.250%
11 <sup>th</sup> Dist COF	1.825%
6 Mo. LIBOR	0.746%

**Last Week:** Stocks finished the week on a strong note after a disappointing monthly retail sales report had initially dampened hope for an extension to the prior session's surge.

**What's Ahead:** This week is fairly busy with five economic reports scheduled to be released. Two of the five are considered to be of high importance to the markets and mortgage rates.

Wednesday is one of the two highly important reports of the week. May's Producer Price Index (PPI) will also be posted early Wednesday morning. There are two readings of this index, the overall and the core data. The core data is considered to be the more important of the two because it excludes more volatile food and energy prices. A large increase could raise concern about inflation rising as soon as the economy gains some traction. This would not be good news for bond prices or mortgage rates since inflation erodes the value of a bond's future fixed interest payments.

There are two reports scheduled for release Thursday, but one of them is the week's most important and arguably the single most important report we see each month. That is May's Consumer Price Index (CPI). It is very similar to Wednesday's PPI, but measures inflationary pressures at the more important consumer level of the economy. It is expected to show a 0.2% drop in the overall reading and a 0.1% increase in the core data. A larger than expected increase in the core reading would most likely lead to a noticeable upward change to mortgage rates Thursday.

Overall, look for Wednesday to be the biggest day of the week, because it brings us the PPI that is considered to be a key inflation reading. Thursday is also very important with the CPI being posted, so look for the most movement in rates during the middle part of the week.



(800) 957-0010

[www.firstcapitalmtg.com](http://www.firstcapitalmtg.com)