

# MARKET BRIEF

June 21, 2010

## Timely Topics

### Treasury Yields to Rise by Year-End, Survey Says

The biggest bond dealers see Treasury yields rising by the end of the year as investors become more comfortable with the global economy's path to recovery.

As a result, that will reduce the demand for the relative safety of U.S. government debt that has surprised many in recent months and pushed yields towards record lows.

"We're going to look back at this period as a Treasury bubble," said Frank Koster, chief investment officer of Dwight Asset Management. "We're relatively positive about growth prospects this year."

Few expect any concrete action from the Federal Reserve before December. As always, investors and analysts will tune in to the policy meeting on Tuesday and Wednesday in the hopes that officials show their hand in some nuanced way.

"Given our expectations that growth will be good in the second half of the year and the inflation story may not be as favorable as it looks today, that combination will put upward pressure on rates," said Michelle Girard, senior economist at RBS. "We have a flight to quality bid in the market right now. That's pushed yield levels to extremes."

## Economic Update

**Last Week:** With little leadership, stocks remained near the flat line for most of Friday's session after reaching their highest levels in mid-morning trading.

**What's Ahead:** This will likely prove to be a fairly active week in terms of mortgage rate movement due to the economic data and other events that are scheduled.

Tuesday brings us the first data with the release of May's Existing Home Sales report. The National Association of Realtors will give us figures on home resales late Tuesday morning. It is expected to show an increase in sales from April to May.

There is an FOMC meeting that begins Tuesday and will adjourn Wednesday afternoon. It is widely expected that Mr. Bernanke and company will not change key short-term interest rates at this meeting. But, as we have seen so many times in the past, it is the post meeting statement that often creates the most volatility in the markets. They could give an opinion of the overall economy or inflation, hinting at a possible future move or lack of one. Statements like these could cause a knee-jerk reaction in the markets and possibly mortgage pricing Wednesday afternoon.

The only important release scheduled for Thursday is May's Durable Goods Orders, which gives us an indication of manufacturing sector strength. It is known to be quite volatile from month to month and is expected to show a decline of 1.4% in new orders from April to May. A larger decline would be the ideal scenario for the bond market and could lead to a decline in mortgage pricing Thursday.

The last important data of the week will come Friday from the University of Michigan who will update their Index of Consumer Sentiment for May. This index gives us a measurement of consumer willingness to spend. A downward revision would be considered good news for bonds and rates, but forecasts are calling for no change from this month's preliminary reading of 75.5.

Overall, Monday will likely be the quietest day of the week unless the stock markets stage a rally or sizable sell-off. The most active should be Wednesday with the FOMC meeting adjourning or Thursday due to the importance of the data being posted that day. Friday's news may also affect mortgage rates, but likely not as much as earlier days.

## Important Markets

### DOW Jones Industrial

Start of week	10211.07
End of week	10450.64
Change	239.57

### NASDAQ

Start of week	2243.60
End of week	2309.80
Change	66.20

### 30-Year Bond

Last week	4.15
This week	4.14

1 Yr T-Bill 0.260%

Prime Rate 3.250%

11<sup>th</sup> Dist COF 1.825%

6 Mo. LIBOR 0.751%



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