

MARKET BRIEF

July 6, 2010

Rate Futures Suggest Fed On Hold Longer into 2011

Timely Topics

U.S. interest-rate futures traders are betting the Federal Reserve will keep short-term interest rates on hold for another year after a government report showed private companies hired fewer people than expected last month, suggesting the economic recovery is losing steam.

Payrolls fell 125,000, more than expected, and the jobless rate unexpectedly dropped to 9.5 percent as more people gave up even looking for work, a Labor Department report showed on Friday.

Those figures are adding to worries about the sustainability of a recovery from the worst downturn since the Great Depression.

"We're already beginning to price in this double dip economic situation," said Doug Warner, a broker for newly-formed Grant Park Securities in Chicago.

The Fed has kept its target rate for overnight lending between banks at a between zero and 0.25 percent since December 2008, and has pledged to keep rates extraordinarily low for an "extended period."

Now, Warner said, "the first smidgen of a thought process that the Fed will adjust its range is for June of next year."

Across the board, futures traders pushed their expectations for a hike out a bit farther after the jobs report, trading showed. Implied prospects that the Fed will raise its target for overnight lending between banks this year fell to 13 percent. They stood at 17 percent before the jobs report, based on trading in the December Fed funds futures contract.

Economic Update

Important Markets

| | |
|---------------------------|----------|
| DOW Jones Industrial | |
| Start of week | 10143.81 |
| End of week | 9686.48 |
| Change | (457.33) |
| NASDAQ | |
| Start of week | 2223.48 |
| End of week | 2091.79 |
| Change | (131.69) |
| 30-Year Bond | |
| Last week | 4.06 |
| This week | 3.94 |
| 1 Yr T-Bill | 0.300% |
| Prime Rate | 3.250% |
| 11 th Dist COF | 1.791% |
| 6 Mo. LIBOR | 0.750% |

Last Week: Stocks made a late attempt to snap their recent string of losses in the face of some dour employment data, but a late slide proved that sellers are still in control.

What's Ahead: This holiday-shortened week brings us little economic data to drive the markets and mortgage rates. There are no reports scheduled this week that can be considered important. This makes it quite likely that the stock markets will have the biggest influence on the bond market and mortgage pricing the next several days.

The first piece of data comes late Tuesday morning when the Institute for Supply Management (ISM) will post their Services Index for June. This index is somewhat similar to last week's ISM Manufacturing Index but tracks sentiment at the services level. It has the potential to impact bond trading and mortgage rates if it shows a sizable variance from forecasts, particularly when little other data is being posted. However, it usually has little influence on mortgage pricing and cannot be considered a key report. Current forecasts are calling for a reading of 55.0, which would be a small decline from May's reading.

The only other economic data worth mentioning is Thursday's weekly unemployment figures from the Labor Department. This release usually has little influence on bond trading or mortgage rates, but with a lack of important data scheduled for release this week it may draw more attention than usual.

Analysts are expecting to see that approximately 460,000 new claims for benefits were filed last week. The higher the total of new claims, the better the news for bonds and mortgage rates.



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