

MARKET BRIEF

July 19, 2010

Fed's Worry List May be Getting Longer

Timely Topics

Shoppers are losing confidence, becoming more concerned about low pay and a weak job market than about bargains. And their worries are threatening to drag down the economy.

A report released Friday showed that consumer confidence fell in July to its lowest point in nearly a year. A volatile stock market, near-double-digit unemployment, lackluster wage gains and a stalled housing market have raised fears that the recovery is on the verge of stalling.

Americans reacted by clamping down on their spending in May and June. Many cut back after the stock market lost about 10 percent of its value over the past three months, as Europe's debt crisis shook Wall Street. The resulting loss of household wealth has left many Americans less inclined to spend.

With unemployment at 9.5 percent, shoppers are likely to stay frugal in the coming months. If they retrench sharply, businesses could cut back on hiring. Potentially, the economy could slip back into recession. The odds of that happening, while still low, have risen in the past three months, economists said.

Economic Update

Last Week: The major indices logged a loss last week as disappointing consumer sentiment data sank stocks on Friday.

What's Ahead: This week may be quite interesting for the bond market and mortgage rates. There are only three economic reports scheduled for the financial and mortgage markets to digest and none of them are considered to be of high importance to the markets. But in addition to the minimal economic data, we have two days of semi-annual congressional testimony by Fed Chairman Bernanke. The first day of testimony has the potential to influence changes to mortgage rates more than many of the monthly or quarterly pieces of economic data that we see regularly. Add in the fact that the 10-year Treasury Note again fell below, and closed under the benchmark 3.00% last week and we have bond market yields at a point of potential downward movement or an upward spike. This could be the week that we get that direction decided.

The first economic report of the week comes Tuesday morning with the release of June's Housing Starts. This data gives us an indication of housing sector strength, but is not considered to be of high importance. Analysts are currently expecting to see a decline in new home construction starts. However, I don't see this data having much of an impact on mortgage rates Tuesday unless it varies greatly from forecasts.

Fed Chairman Bernanke will speak before the Senate Banking Committee Wednesday and the House Financial Services Committee Thursday mornings at 10:00am ET. His testimony will be broadcast and watched very closely. Analysts and traders will be looking for the status of the economy and his expectations of future growth, particularly inflation concerns that will lead to changes in key short-term interest rates.

Overall, this is a moderately significant week for the bond market and mortgage rates. If we get weaker than expected economic results and Chairman Bernanke's words do not negatively surprise the markets, we may see mortgage rates move lower for the week. However, if Mr. Bernanke's testimony raises concerns about rapid economic growth or inflation, rates may move higher on the week. I suspect we will see them move noticeably from current levels, which could be the base for more movement in the same direction over the next couple of weeks. Therefore, even though there is not a large number of relevant reports scheduled for release, don't underestimate the importance of this particularly week. This is especially true if still floating an interest rate.

Important Markets

DOW Jones Industrial	
Start of week	10198.03
End of week	10097.90
Change	(100.13)
NASDAQ	
Start of week	2196.45
End of week	2179.05
Change	(17.40)
30-Year Bond	
Last week	4.03
This week	3.94
1 Yr T-Bill	0.250%
Prime Rate	3.250%
11 th Dist COF	1.791%
6 Mo. LIBOR	0.727%



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