

# Morgan Strause

## Market Update Week of June 1, 2010

This week brings us the release of five economic reports. Two of the five are considered to be of very high importance to the bond market and mortgage rates.

The Institute for Supply Management's (ISM) manufacturing index will be posted late Tuesday morning. This highly important index measures manufacturer sentiment. A reading above 50 means that more surveyed manufacturing executives felt that business improved during the month than those who felt it had worsened. Analysts are expecting to see a 58.9 reading in this month's release, meaning that sentiment fell slightly during May. A smaller reading will be good news for the bond market and mortgage shoppers while an unexpected increase could contribute to higher mortgage rates Tuesday.

One of the three reports being released on Thursday may have a noticeable impact on the markets or be a non-factor depending on its results. The Institute for Supply Management will release its services index late Thursday morning. It is expected to show a reading of 55.5, with the same principals as Tuesday's manufacturing index. If this reading varies greatly from forecasts, we may see volatility in the markets and mortgage rates. However, if its results are in the general area of expectations, it will likely have no influence on the markets and mortgage pricing Thursday.

Friday's unemployment report is the most important report of the week. The Labor Department will post May's Employment data early Friday morning. This report gives us key employment readings such as the U.S. unemployment rate and the number of jobs added or lost during the month. Analysts are expecting to see the unemployment rate drop from 9.9% in April to 9.8% this month with approximately 500,000 jobs added to the economy during the month. A higher than expected unemployment rate and a smaller number in new payrolls would be great news for the bond market. It would probably create a rally in bonds, leading to lower mortgage rates Friday. However, a stronger than expected result may lead to a spike in mortgage rates Friday morning.

Overall, Tuesday and Friday are likely to be the most important days of the week as they bring us the two most important reports on the agenda. If they give us weaker than expected results, we could close the week with lower mortgage rates than Tuesday's opening levels. However, if we see stronger than expected readings in these two releases, mortgage rates will move higher on the week. The above will also depend on seeing a relatively calm week in stocks. As we have seen the past two weeks, the concerns over the strength of the EURO and stock market volatility can heavily influence bond trading and mortgage rates and significantly minimize the impact that these economic reports normally have on rates. Accordingly, please consider all of the above factors if still floating an interest rate.

### Market News – Snapshot

#### Mortgage

Mortgage	this week	last week
30yr Conf Ntl Avg	4.780	4.840
15yr Conf Ntl Avg	4.210	4.240

#### Weekly Indices

	this week	last week
6 Month CD	0.216	0.208
1 Year T-Bill	0.315	0.324
2 Year T-Note	0.766	0.747
3 Year T-Note	1.315	1.260
5 Year T-Note	2.092	1.999
10 Year T-Note	3.285	3.211
30 Year T-Bond	4.204	4.078

Monthly Indices

	this month	last month
11th Dist.	1.859	1.614
6 Month LIBOR	0.696	0.531
1 Month LIBOR	0.340	0.280
MTA Index	0.413	0.421

Other

Prime Rate	3.250
Fed. Funds Rate	0.250
Discount Rate	0.750
12 Month LIBOR	1.204

**Week of May 31 - June 04**

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior	Revised From
Jun 01	10:00	<u>Construction Spending</u>	Apr	-0.2%		0.1%	0.2%	
Jun 01	10:00	ISM Index	May	59.5		58.5	60.4	
Jun 02	10:00	Pending Home Sales	Apr	3.5%		3.5%	5.3%	
Jun 02	10:30	Crude Inventories	05/29	NA		NA	2.46M	
Jun 02	14:00	Auto Sales	May	NA		4.1M	3.9M	
Jun 02	14:00	Truck Sales	May	NA		4.8M	4.9M	
Jun 03	08:15	ADP Employment Change	May	60K		56K	32K	
Jun 03	08:30	Productivity-Rev	Q1	3.3%		3.4%	3.6%	
Jun 03	08:30	Unit Labor Costs	Q1	-1.4%		-1.6%	-1.6%	
Jun 03	08:30	Initial Claims	05/29	450K		455K	460K	
Jun 03	08:30	Continuing Claims	05/22	4600K		4600K	4607K	
Jun 03	10:00	Factory Orders	Apr	2.0%		1.7%	1.3%	
Jun 03	10:00	ISM Services	May	55.7		55.5	55.4	

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior	Revised From
Jun 04	08:30	Nonfarms Payroll	May		500K	500K	290K	
Jun 04	08:30	Unemployment Rate	May		10.0%	9.8%	9.9%	
Jun 04	08:30	Hourly Earnings	May		0.1%	0.1%	0.0%	
Jun 04	08:30	Average Workweek	May		34.2	34.1	34.1	