

# Morgan Strause

## Market Update - Week of 08/23/2010 – 08/27/2010

This week we will have the release of five important economic indicators for the bond market.

Tuesday morning there will be the release of July's existing home sales. It covers approximately 85% of home sales in the U.S., but usually does not have a major influence on bond trading and mortgage rates unless it varies greatly from analysts' forecasts.

The Commerce Department will post July's Durable Goods Orders early Wednesday morning. This data tracks orders at U.S. factories for big-ticket items, or products that are expected to last three or more years. A much weaker reading than the expected 0.5% rise that is expected would indicate that the manufacturing sector is not as strong as thought. This would be good news for bonds and should lead to lower mortgage rates Wednesday morning.

Also scheduled for release Wednesday is July's New Home Sales data. This report is the least important release of the week.

Friday is another multi-release day with the first revision to the 2nd Quarter Gross Domestic Product (GDP) and the University of Michigan Index of Consumer Sentiment both scheduled for release. This reading is the second of three that we see each quarter. Last month's preliminary reading revealed that the economy grew at an annual rate of 2.4%. Friday's revision is expected to show that the GDP actually rose only 1.4%. A larger than expected downward revision should help lower mortgage rates Friday, especially if the inflation portion of the release does not get revised higher.

August's revision to the University of Michigan's Index of Consumer Sentiment is also due Friday morning. It helps us track consumer willingness to spend and is expected to show little change from August's preliminary reading of 69.6.

This week there will also be two Treasury auctions that may affect bond trading and mortgage rates this week: Wednesday's 5-year Note and Thursday's 7-year Note sales. Results of this week's auctions will be posted 1:00 PM ET each day. If investor interest is strong in the auctions, we can expect the broader bond market to rally and mortgage rates to move lower. However, lackluster demand could lead to bond selling and higher mortgage rates Wednesday and Thursday afternoons.

Overall, we will likely see the most activity in rates Tuesday morning, but Wednesday and Thursday are also fairly important.

### Market News – Snapshot

#### Mortgage

| Mortgage          | this week | last week |
|-------------------|-----------|-----------|
| 30yr Conf Ntl Avg | 4.420     | 4.440     |
| 15yr Conf Ntl Avg | 3.900     | 3.920     |

#### Weekly Indices

|                | this week | last week |
|----------------|-----------|-----------|
| 6 Month CD     | 0.178     | 0.178     |
| 1 Year T-Bill  | 0.232     | 0.234     |
| 2 Year T-Note  | 0.487     | 0.529     |
| 3 Year T-Note  | 0.740     | 0.810     |
| 5 Year T-Note  | 1.450     | 1.455     |
| 10 Year T-Note | 2.607     | 2.673     |
| 30 Year T-Bond | 3.651     | 3.861     |

#### Monthly Indices

|               | this month | last month |
|---------------|------------|------------|
| 11th Dist.    | 1.797      | 1.791      |
| 6 Month LIBOR | 0.546      | 0.668      |
| 1 Month LIBOR | 0.260      | 0.305      |
| MTA Index     | 0.370      | 0.386      |

#### Other

|                 |       |
|-----------------|-------|
| Prime Rate      | 3.250 |
| Fed. Funds Rate | 0.250 |
| Discount Rate   | 0.750 |
| 12 Month LIBOR  | 0.906 |

## Week of August 23 - August 27

| Date   | ET    | Release   | For    | Actual | Briefing.com | Consensus | Prior | Revised From |
|--------|-------|---|--------|--------|--------------|-----------|-------|--------------|
| Aug 24 | 10:00 | <a href="#">Existing Home Sales</a>                   | Jul    | 4.60M  | 4.75M        | 5.37M     |       |              |
| Aug 25 | 08:30 | <a href="#">Durable Orders</a>                        | Jul    | 2.5%   | 3.1%         | -1.2%     |       |              |
| Aug 25 | 08:30 | <a href="#">Durable Goods -ex Transportation</a>      | Jul    | 0.5%   | 0.5%         | -0.9%     |       |              |
| Aug 25 | 10:00 | <a href="#">New Home Sales</a>                        | Jul    | 300K   | 330K         | 330K      |       |              |
| Aug 25 | 10:30 | Crude Inventories                                     | 08/21  | NA     | NA           | -0.818M   |       |              |
| Aug 26 | 08:30 | <a href="#">Initial Claims</a>                        | 08/21  | 475K   | 485K         | 500K      |       |              |
| Aug 26 | 08:30 | <a href="#">Continuing Claims</a>                     | 08/14  | 4500K  | 4515K        | 4478K     |       |              |
| Aug 27 | 08:30 | <a href="#">GDP - Second Estimate</a>                 | Q2     | 1.3%   | 1.4%         | 2.4%      |       |              |
| Aug 27 | 08:30 | <a href="#">GDP Deflator - Second Estimate</a>        | Q2     | 1.8%   | 1.8%         | 1.8%      |       |              |
| Aug 27 | 09:55 | <a href="#">U Michigan Consumer Sentiment - Final</a> | August | 69.6   | 69.4         | 69.6      |       |              |