

Week of September 17, 2007

Keeping up-to-date on market fluctuations allows you to bring greater value to your clients.

Market Comment

The news last week, though sparse, generally favored credit markets. In the latest move to buttress its finances, Countrywide Financial, the nation's No. 1 mortgage company, said it obtained an additional \$12 billion in secured financing. This arrangement follows a deal struck in August to borrow \$11.5 billion to replace volatile short-term, commercial-paper funding. Countrywide's ability to secure additional credit sources portends a possible easing in funding for the entire industry.

Additional favorable news was provided by the Commerce Department, which reported that U.S retail sales posted lower than expected last month, slowing to 0.3% from 0.5%, high-

lighting concerns consumer spending is abating amid the housing downturn and market turmoil. Slower retail sales growth, though raising economic growth concerns, generally translates to slower inflation growth.

Mortgage rates reacted favorably to the duel notions of additional funding and a slowing economy by sending rates lower across duration and type. On the prime front, the benchmark 30-year fixed-rate dropped 15 basis points to average 6.31%, the 15-year fixed-rate mortgage tumbled 18 basis points to average 5.97%, and the one-year Treasury-indexed adjustable rate mortgage fell eight basis points to average 5.66%, according to Freddie Mac's weekly survey. Rates are now lower than they were this time last year (but still about 10 basis points above May's lows).

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Producer Price Index (August)	Tues. Sept. 18, 8:30 am, et	All Items: 0% Core: 0.1% (Increase)	Very Important. Moderating price increases raise the odds for lower interest rates.
Housing Market Index (September)	Tues. Sept. 18, 1:00 pm, et	22 Index	Important. The immediate outlook for the housing industry remains at a 15-year low.
Federal Reserve Interest Rate Announcement	Tues. Sept. 18, 2:15 pm, et	None	Very Important. Futures markets are betting that the Fed will lower the federal funds rate.
MBA Mortgage Applications	Wed. Sept. 19, 7:00 am, et	None	Important. The holiday-adjusted index suggests increasing activity.
Consumer Price Index (August)	Wed. Sept. 19, 8:30 am, et	All Items: 0.1% (Decrease) Core: 0.1% (Increase)	Very Important. A CPI price decrease could translate into an interest rate decrease.
Philadelphia Federal Reserve Survey (September)	Thurs. Sept. 20, 12:00 pm, et	None	Important. Credit markets expect a slight decrease in commodity prices.

Lower Rates Ahead?

All eyes will be focused on Tuesday's Federal Reserve interest-rate announcement. A month ago, futures traders predicted the influential federal funds rate would remain unchanged through the end of the year. Now, they are betting – with a 75% probability at last reading – that the Fed will drop the rate to 4.75% from 5.25%.

Why the about face? In a nutshell, inflation has slowed to a

crawl, unemployment is inching higher, housing continues to struggle, and liquidity (the ability for people who need money to obtain it at reasonable rates) is evaporating. Pressure has increased for the Fed to mitigate further damage.

Still, a fed funds rate cut isn't a done deal. The risk remains that the cut will be less than expected, or even that a cut won't occur at all. But if the futures traders are right, prime mortgage rates could not only ease but drop precipitously, providing much-needed relief to borrowers hoping to refinance or purchase a home.

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