

## MORTGAGE MARKET IN REVIEW

**HOMETOWN AMERICA**  
INCORPORATED

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### Market Comment

Mortgage bond prices finished the week lower which put upward pressure on rates. We started the week on a bad note when traders focused on reports the Federal Reserve is considering changing their 2% inflation rule to allow an overshoot. The Fed would like to see some indicators exceed the 2% mark so that they have room for rate cuts if needed in the future. We recovered most of those losses as stocks tanked Tuesday, but the positive improvements were short-lived as stocks turned again Wednesday. Employment data was mixed. ADP employment rose 67K versus the expected 175K. Jobless claims were 203K versus the expected 220K. Unemployment was 3.5%. Analysts expected a reading of 3.6%. Payrolls surged 266K versus the expected 185K. Consumer sentiment was 99.2 versus the expected 96.5. Mortgage interest rates finished the week worse by approximately 1/4 of a discount point.

### LOOKING AHEAD

| Economic Indicator      | Release Date & Time                | Consensus Estimate       | Analysis  |
|-------------------------|------------------------------------|--------------------------|---|
| Treasury Auctions Begin | Monday, Dec. 9,<br>1:15 pm, et     | None                     | Important. 3Y Notes on Tuesday, 10Y Notes on Wednesday, and 30Y Notes on Friday.                                  |
| Revised Q3 Productivity | Tuesday, Dec. 10,<br>8:30 am, et   | Down 0.3%                | Important. A measure of output per hour. Improvement may lead to lower mortgage rates.                            |
| Consumer Price Index    | Wednesday, Dec. 11,<br>8:30 am, et | Up 0.2%,<br>Core up 0.1% | Important. A measure of inflation at the consumer level. Weaker figures may lead to lower rates.                  |
| Fed Meeting Adjourns    | Wednesday, Dec. 11,<br>2:15 pm, et | No rate changes          | Important. No Fed rate change expected but some volatility may surround the adjournment of this meeting.          |
| Weekly Jobless Claims   | Thursday, Dec. 12,<br>8:30 am, et  | 200K                     | Important. An indication of employment. Higher claims may result in lower rates.                                  |
| Producer Price Index    | Thursday, Dec. 12,<br>8:30 am, et  | Up 0.4%,<br>Core up 0.2% | Important. An indication of inflationary pressures at the producer level. Weaker figures may lead to lower rates. |
| Retail Sales            | Friday, Dec. 13,<br>8:30 am, et    | Up 0.9%                  | Important. A measure of consumer demand. Weakness may lead to lower mortgage rates.                               |

|                      |                                  |         |   |
|----------------------|----------------------------------|---------|---|
| Business Inventories | Friday, Dec. 13,<br>10:00 am, et | Up 0.1% | Low importance. An indication of stored-up capacity. A significantly larger increase may lead to lower rates. |
|----------------------|----------------------------------|---------|---|

## GSEs

Government sponsored enterprises (GSEs) are financial services created by Congress. Two of the most important GSEs in the mortgage industry are Fannie Mae and Freddie Mac. These corporations are designed to make credit available to targeted borrowers in an efficient manner. The supply and demand characteristics of Treasury bonds and mortgage-backed securities (MBSs) issued by Fannie and Freddie differ significantly. Treasury securities represent money needed to fund the operations of the US government. MBSs, on the other hand, represent borrowing by homeowners. Because homeowners can sell or refinance their homes, investors in 30-year mortgage-backed securities usually see principal repayment in significantly shorter periods of time. MBSs are part of many retirement accounts, which citizens depend on for income. The Federal Housing Finance Agency tried to preserve those investments while shrinking Fannie and Freddie after the 2008 financial collapse. Some want to see them completely dissolved and a new system put in place. The ramifications of that could be widespread and the debate continues over a decade later.

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