

MORTGAGE MARKET IN REVIEW



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Market Comment

Mortgage bond prices finished the week slightly higher which helped rates improve. We started on a positive note Monday morning as stocks were weaker. Some of the improvements were erased as MBS selling pressure emerged late Monday afternoon and continued into Tuesday. The data was mixed. Retail sales fell 1.1% vs an expected 0.1% increase. Industrial production rose 0.9% vs 0.4%. Capacity use was 76.1 vs 75.7%. NAHB housing was 75.0 vs 81.0. Housing starts were 1534K vs 1600K. The Philadelphia Fed index was 19.4 vs 23. LEI rose 0.9% vs 0.8%. Weekly jobless claims were 348K vs the expected 370K. Mortgage interest rates finished the week unchanged to better by 1/8 of a discount point despite some choppy trading mid-week.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
Existing Home Sales	Monday, Aug. 23, 10:00 am, et	5.86M	Low importance. An indication of mortgage credit demand. Significant weakness may lead to lower rates.
New Home Sales	Tuesday, Aug. 24, 10:00 am, et	675K	Important. An indication of economic strength and credit demand. Weakness may lead to lower rates.
Durable Goods Orders	Wednesday, Aug. 25, 8:30 am, et	Up 0.2%	Important. An indication of the demand for "big ticket" items. Weakness may lead to lower rates.
Q2 GDP	Thursday, Aug. 26, 8:30 am, et	Up 6.1%	Very important. The aggregate measure of US economic production. Weakness may lead to lower rates.
Weekly Jobless Claims	Thursday, Aug. 26, 8:30 am, et	400K	Important. An indication of employment. Higher claims may result

			in lower rates.
PCE Core Inflation	Friday, Aug. 27, 8:30 am, et	Up 0.4%	Important. A measure of price increases for all domestic personal consumption. Weaker figure may help rates improve.
Personal Income and Outlays	Friday, Aug. 27, 8:30 am, et	Up 0.2%, Up 1.1%	Important. A measure of consumers' ability to spend. Weakness may lead to lower mortgage rates.
U of Michigan Consumer Sentiment	Friday, Aug. 27, 10:00 am, et	70.4	Important. An indication of consumers' willingness to spend. Weakness may lead to lower mortgage rates.

Fed Outlook

The Federal Reserve provided insight into future MBS purchases. The latest minutes from their last meeting detailed, "Looking ahead, most participants noted that, provided that the economy were to evolve broadly as they anticipated, they judged that it could be appropriate to start reducing the pace of asset purchases this year because they saw the Committee's "substantial further progress" criterion as satisfied with respect to the price-stability goal and as close to being satisfied with respect to the maximum-employment goal. Various participants commented that economic and financial conditions would likely warrant a reduction in coming months. Several others indicated, however, that a reduction in the pace of asset purchases was more likely to become appropriate early next year because they saw prevailing conditions in the labor market as not being close to meeting the Committee's "substantial further progress" standard or because of uncertainty about the degree of progress toward the price-stability goal. Participants agreed that the Committee would provide advance notice before making changes."

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