



Mortgage Time

Mortgage Market News for the week ending January 14, 2011



Compliments of
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Low Inflation and Strong Demand

Favorable conditions helped mortgage rates move a little lower this week. The inflation data released during the week showed that inflation continued to remain at very low levels. In addition, demand for longer-term Treasury securities was strong.

Inflation is always negative for bonds, since it erodes their value over time. Despite improving economic growth, there have been few signs of rising inflation in the current environment, which has helped keep mortgage rates at low levels. The December Consumer Price Index (CPI), the most closely watched inflation indicator, was just 1.5% higher than one year ago. Core CPI, which excludes the volatile food and energy components, increased an even lower 0.8% from one year ago. While food and energy prices recently have been rising more rapidly than the overall price level, investors generally focus on core inflation. The Fed considers a range for core inflation between 1.5% and 2.0% to be most desirable for the long term.

A second important influence for mortgage rates is the level of investor demand for bonds. If demand falls, then yields must rise to attract additional investors. A good indicator of investor demand for bonds comes from the Treasury auctions. During the week, demand was stronger than average from both domestic and foreign investors for longer-term 10-year and 30-year Treasury securities. Since mortgage-backed securities (MBS) and longer-term Treasury securities are similar investments, mortgage rates generally benefit from strong Treasury auctions, as was seen this week.

Also Notable:

- December Capacity Utilization increased to 76.0%, the highest level since August 2008
- Continuing Jobless Claims fell to the lowest level since October 2008
- Bernanke suggested that unemployment will fall slowly at current economic growth rates
- China tightened monetary policy again to fight inflation

Events This Week:

Inflation Low

Retail Sales Rose

Trade Deficit Down

Manufacturing Up

Events Next Week:

Tues 1/18
Empire State

Wed 1/19
Housing Starts

Thur 1/20
Existing Sales
Philly Fed
Leading Indicators



Average 30 yr fixed rate:

Last week: +0.01%

This week: -0.05%

Stocks (weekly):

Dow: 11,750 +50

NASDAQ: 2,725 +25

Week Ahead

Next week's focus will be on the Housing sector data. Housing Starts will be released on Wednesday. Existing Home Sales will come out on Thursday, along with Leading Indicators. Two regional manufacturing indexes, Empire State and Philly Fed, will round out a light economic schedule next week. Mortgage markets will be closed on Monday in observance of MLK Day.

To learn more about news impacting interest rates and mortgage markets, go to www.mbsquoteline.com

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