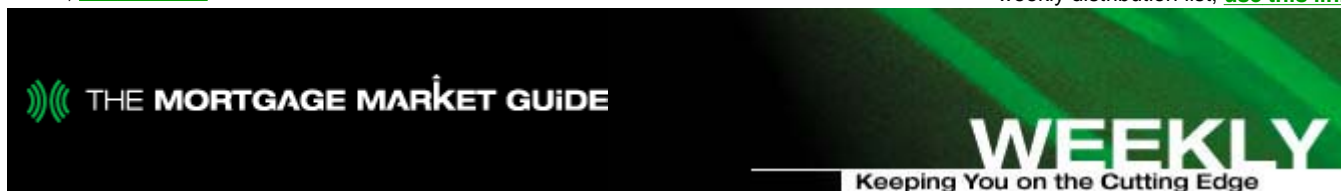


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By **Foster Weeks**

Foster Weeks
Mortgage Specialist
Guarantee Mortgage
Office: 415-441-5050
Cell: 415-819-0534
Toll Free: 888-768-5626
E-Mail: fweeks@gmwest.com



For the week of Jun 02, 2008 --- Vol. 6, Issue 23

Last Week in Review ▶

"INFLATION IS AS VIOLENT AS A MUGGER, AS FRIGHTENING AS AN ARMED ROBBER, AND AS DEADLY AS A HIT MAN." ~ Ronald Reagan. And although you might not describe the effects of inflation in such strong terms yourself...rest assured that the effects of inflation have crept into your home, your gas tank and your wallet. And inflation is also the nemesis of Bonds and therefore home loan rates, because just like inflation erodes the value of the dollars you spend, inflation erodes the value of the fixed return a Bond provides. **And last week, Bond pricing worsened on news of inflation, causing home loan rates to move higher by about .25% across the board and reaching the highest levels seen in weeks.**

The week was shortened by the Memorial Day holiday, but right out of the gates, inflation concerns abounded. The Consumer Confidence Report indicated that consumer inflation expectations are at an all-time high...meaning that consumers are seeing inflation as a real threat to their own financial situation. Rising energy costs and worldwide inflation fears continued to pummel Bonds lower - in fact, so low that they moved below a tough technical floor of support at the 200-Day Moving Average. This is important because Bonds have made a decisive cross over the 200-day Moving Average on only three separate occasions within the past three years. This means that barring a timely reversal, we are likely seeing a shift in the market towards higher home loan rates.

Friday brought a little good news on inflation, as the Core Personal Consumption Expenditure (PCE) Index showed that inflation does remain within the Fed's comfort zone. While Bonds and home loan rates improved somewhat on the news, the trend for the week was definitely worse overall, as the big picture on inflation cost Bonds and home loan rates some hard earned ground.

LOOKING FORWARD TO YOUR STIMULUS CHECK...AND WISHING THE SIZE OF IT COULD BE "INFLATED?" RETAILERS HAVE COOKED UP SOME INTERESTING SPECIALS TO DO JUST THAT, SHOULD YOU DECIDE TO SPEND YOUR CHECK ON THEIR GOODS OR SERVICES. TAKE A LOOK AT THIS WEEK'S MORTGAGE MARKET VIEW FOR SOME EXAMPLES OF WHAT CREATIVE RETAILERS HAVE IN STORE FOR YOU.

Forecast for the Week ▶

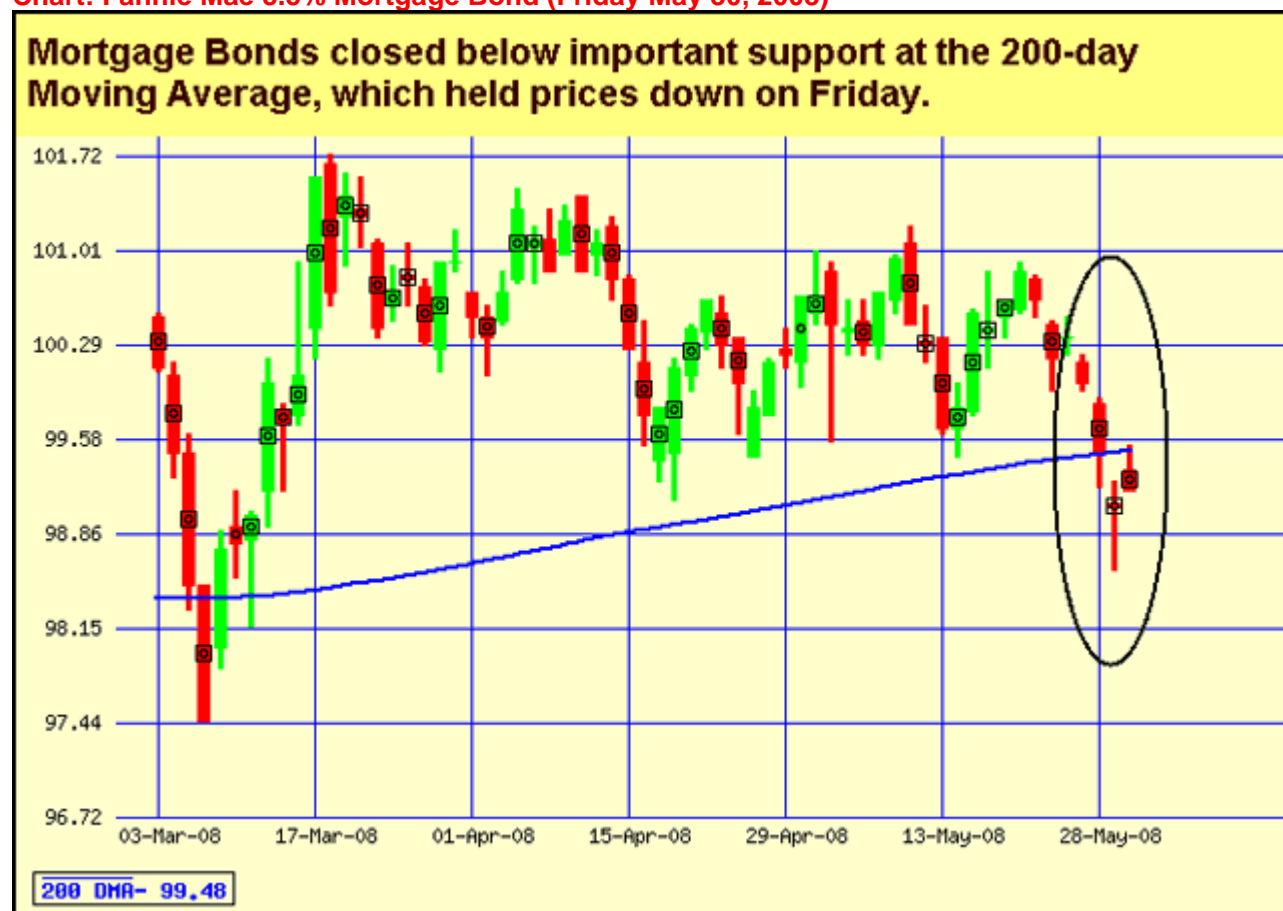
This coming week, one economic report in particular bears inflated significance...Friday's release of the infamous monthly Jobs Report. It will reveal, among many other things, the number of jobs lost or gained during the month of May. Last month's Jobs Report indicated that 20,000 jobs were lost in April,

and while this was better than the expected job losses of 75,000, it is possible that the reported number understated the actual number of jobs lost, due to how the Department of Labor averages their count. And part of each month's report is "revisions" to the several prior months' numbers...which this could be quite a wild card for Bonds and home loan rates.

Last month's Jobs Report, which was indeed more positive than expected, caused Bonds to fall a whopping 134bp in a matter of minutes, and home loan rates worsened quickly. Why? Because even though the news wasn't great, it sure was better than anticipated...and this caused money to flow out of Bonds, and into Stocks...which caused Bond prices and home loan rates to worsen. **This week's Jobs Report could sure be another mover, and if the report or revisions indicate positive news on the jobs front, home loan rates will likely worsen in response.**

Remember when Bond prices move higher, home loan rates move lower...and vice versa. And as you can see in the chart below, Bonds moved lower for most of the week, and actually closed below an important technical level at the 200-day Moving Average. This is a very important level, as it can act as either a very strong floor of support helping Bond prices not to fall below it...or as an equally strong ceiling of resistance, preventing Bonds and home loan rates from improving above it. And with Bonds currently having fallen beneath it, I'll be watching closely this week to see if Bonds have indeed fallen and can't get up...or if they can break above that tough level later this week and help home loan rates improve.

Chart: Fannie Mae 5.5% Mortgage Bond (Friday May 30, 2008)



[The Mortgage Market View... ▶](#)

Retailers Looking For Some "Stimulus"...

According to a recent poll on how consumers intend to spend their stimulus checks, 19% of consumers plan on using their economic stimulus check for a special purchase, and 23% plan to use their check for everyday expenses. The rest...well, 36% say they will pay down debt and 22% say they will put it into savings. But will the check burn a hole through their pockets?

Maybe so, particularly with the "stimulus check" specials that many retailers have come up with, offering bonuses and incentives for people who spend their "stimulus" dollars with them. Here are some examples, in case you want to take advantage of any offers:

Sears. If you use your stimulus check to purchase a gift card, you receive an additional gift card worth 10% of your check's value. This offer is also good at Kmart and Lands' End.

Kroger. Between now and July 31, 2008, you can exchange your tax refund or economic stimulus check for a Kroger gift card with an extra \$30.00 (for \$300.00 checks), \$60.00 (for \$600.00 checks) or \$120.00 (for \$1,200.00 checks) added to it. The program is available throughout Kroger stores nationwide - including Kroger, Baker's, City Market, Dillons, Fred Meyer, Fry's, Gerbes, Hilander, Jay C, King Soopers, Owen's, Pay Less, Ralphs, Smith's and QFC stores.

Home Depot. To encourage consumers to invest their stimulus check in their homes through energy efficient products and services, the retailer is offering special values on energy-efficient products such as light bulbs and home appliances through the summer.

Radio Shack. The retailer will cash your check and give you 10% off on any purchase above \$50, and then give you the difference as a prepaid MasterCard that can be used anywhere that takes MasterCard.

Domino's Pizza. Although you don't need to use your stimulus check for purchase, Domino's is getting into the spirit of economic stimulus, offering a "recession-busting" special of three pizzas for \$12.00. According to the company's press release, "While you're feeding the economy with your special refund check, let it feed you back."

These are just some of the promotions that retailers are currently offering, and more deals are likely on the way. If there's something you want to use part of your stimulus check for, do your homework and take advantage of the specials that are out there. And if you do intend to pay down debt with the check, feel free to give me a call to discuss which debt would make most sense to reduce!

The Week's Economic Indicator Calendar ▶

Remember, as a general rule, weaker than expected economic data is good for rates, while positive causes rates to rise.

Economic Calendar for the Week of June 02 – June 06

Date	ET	Economic Report	For	Estimate	Actual	Prior	Im
Mon. June 02	10:00	ISM Index	May	48.0	49.6	48.6	H
Wed. June 04	08:15	ADP National Employment Report	May	-30K		10K	H
Wed. June 04	08:30	Productivity	Q1	2.5%		2.2%	Mo

Wed. June 04	10:00	ISM Services Index	May	51.0	52.0	Mo
Wed. June 04	10:30	Crude Inventories	5/31	NA	-8883K	Mo
Thu. June 05	08:30	Jobless Claims (Initial)	5/31	370K	372K	Mo
Fri. June 06	08:30	Average Work Week	May	33.7	33.7	H
Fri. June 06	08:30	Hourly Earnings	May	0.2%	0.1%	H
Fri. June 06	08:30	Non-farm Payrolls	May	-52K	-20K	H
Fri. June 06	08:30	Unemployment Rate	May	5.1%	5.0%	H

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**Foster Weeks
Guarantee Mortgage
1860 Lombard St
San Francisco, CA 94123**

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