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For the week of Jun 18, 2007 --- Vol. 5, Issue 25

### Last Week in Review ▶

**TOTALLY GROSS!** And as usual, totally late to the party. After Bond prices and home loan rates recently suffered their most dramatic worsening in more than three years, Bill Gross, CEO of monster Bond fund PIMCO, just decided that despite his previous position to the contrary, he is now a self-proclaimed "Bond Bear". Dollar short, day late for that visionary input, Bill. But interesting...he has notoriously been on the wrong side of the crystal ball in recent years - and the significant improvement in Bond pricing over the last several days makes one wonder if Traders are betting the odds, and doing exactly the opposite of what Bill Gross suggests.

Last week started out nasty for Bonds and home loan rates, as Traders continued to sell off Bonds on their fears of continued inflation, and reduced demand for our US Bonds from foreign investors. But later in the week, things began to turn around - dramatically. One big reason was the very welcome news on Friday that inflation actually does appear to be backing down. The Core Consumer Price Index (CPI) measures what we pay for the goods and services that we buy on a regular basis, but pulls out the often-volatile prices of food and energy. The latest read on inflation, which arrived on Friday, indicated that the year-over-year Core CPI dropped to 2.2%...the lowest read in more than a year. **This was great news for inflation-hating Bonds and home loan rates, and although the mid-week action was volatile, rates finished up the week about where they had started.**

**BILL GROSS IS SAYING IT'S A BAD TIME FOR VACATION...SO MAKE YOUR RESERVATIONS RIGHT AWAY! SUMMER VACATION TIME IS HERE - AND IF YOU'RE READY TO MAKE LIKE CHEVY CHASE AND HIT THE HOLIDAY RO-O-O-OAD - BE SURE YOUR MAIL IS PROTECTED WITH THE QUICK TIME-SAVING TIP FOUND IN THIS WEEK'S MORTGAGE MARKET VIEW.**

### Forecast for the Week ▶

It's a lean, mean economic calendar in store for the upcoming week - with the main interest being a look at the housing sector via May Housing Starts and Building Permits. So what will determine if Bond prices and home loan rates can continue to fight their way towards more improvement, or be pushed back to the negative? With little market-moving news in store, it will likely depend on the technicals.

**Let's be honest...does the word "technicals" just make your eyes glaze over because you think it sounds dry and boring?** Ahh, but it's not - it's actually quite a drama that goes on as Bonds battle out the technical scene, complete with nail-biting cliffhangers and psychological intrigue.

Bonds naturally have price "floors" and "ceilings", indicating the point at which many Traders made decisions to buy or sell, usually based on historical patterns. For example, when Bond prices are getting lower and lower (meaning home loan rates are moving higher), they generally will reach a low price point where historically, Traders will feel like the price is too good of a bargain to pass up, and jump in to buy with both fists. The price then moves higher based on the increased demand...but that low point has now become a line in the sand, where in the future, Traders will be again inclined to buy at that low point. On the other hand, when the Bond reaches a historic high point, it may mean that Traders will be inclined to sell - as they can look around and see

that everyone else seems to have historically sold at that point. Yep, it's like peer pressure! So these "lines in the sand" can be tough to break, and it usually takes some dramatic economic news or headlines to cause Traders to sell in the face of a point where they would normally consider buying, and vice versa.

Look at the chart below - the battleground. You can see where Bonds first crashed through one of these tough lines at the 200-day Moving Average marked in blue. This floor was so tough that Bonds hadn't traded below it since August of 2006. But once the line broke...it broke hard, and Traders couldn't seem to sell off Bonds fast enough. The momentum was so great, Bond prices actually crashed through another tough technical floor, shown in red on the chart. The dramatic decline of Bond prices means that home loan rates have risen dramatically in recent weeks, as you may well know.

But now - Bonds finally hit a floor (shown in green) that it appears might hold, and **Traders are stepping back in to buy, helping Bond prices and home loan rates improve.** But here's the thing...the technical floors that Bonds crashed through now become ceilings - and Bonds will have to fight hard to push back higher and bring some improvement to home loan rates. And with a light news week, there won't be any "juice" from the news to give momentum.

You're probably on the edge of your seat by now - so stay tuned for next week's issue, to see if Bonds were able to mount a strong enough attack to overcome the next ceiling, and help home loan rates improve.

**Chart: Fannie Mae 6.0% Mortgage Bond (Friday Jun 15, 2007)**



[The Mortgage Market View...](#) ▶

## VACATION ALL YOU EVER WANTED...

### But Where Does Your Mail Go When You Have To Get Away?

Think about what lands in your mailbox...bank statements, credit card bills, and maybe even DVD's. Where do they all go when you're gone? If you've been asking a nosy neighbor to pick up your mail-or worse, letting your mail pile up in the box-there's a better option and it's easier than ever!

Whether you're on vacation or an unexpected business trip, you can rest easy knowing your mail is safe and sound by asking the Post Office to suspend delivery while you're gone. They'll hold your mail from 3 to 30 days, and then resume normal delivery on the date you specify. It's convenient, easy to do, and most of all SAFE!

**Make It Easier with the Internet**

Now you can notify the Post Office to hold your mail in two minutes flat without even leaving your house. Just hit this link, and you can quickly fill out the form online: [USPS Mail Hold](#). If your area isn't served online, simply call **1 800 ASK USPS** (1 800 275 8777) and a representative can assist you.

Then, have the time of your life...without worrying about your mail while you're gone!

**The Week's Economic Indicator Calendar ▶**

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

**Economic Calendar for the Week of June 18 – June 22**

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Tue. June 19	08:30	Housing Starts	May	1490K		1528K	Moderate
Tue. June 19	08:30	Building Permits	May	1475K		1457K	Moderate
Wed. June 20	10:30	Crude Inventories	6/15	NA		82K	Moderate
Thu. June 21	08:30	Jobless Claims (Initial)	6/16	310K		311K	Moderate
Thu. June 21	10:00	Index of Leading Econ Ind (LEI)	May	0.2%		-0.5%	Low
Thu. June 21	12:00	Philadelphia Fed Index	Jun	7.0		4.2	HIGH

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