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Provided to you Exclusively  
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](mailto:fweeks@gmwest.com)



For the week of Jul 14, 2008 --- Vol. 6, Issue 29

### Last Week in Review ▶

**"I GUESS WE ALL LIKE TO BE RECOGNIZED NOT FOR ONE PIECE OF FIREWORKS, BUT FOR THE LEDGER OF OUR DAILY WORK."** Neil Armstrong. And while the summer's fireworks started in full force on the July 4th holiday, they continued daily last week in the financial markets as Bonds and home loan rates ignited and began the week by improving sharply. This early-week rally was sparked by a speech made by Fed Chairman Ben Bernanke, who said that the Fed may continue to provide emergency loans to investment banks to help them overcome credit problems. This led to improvement in the Bond market because the markets saw this as a sign that the Fed is willing to take action to maintain stability and counter any turbulence or explosions that may occur.

And speaking of explosions, some explosions in the Middle East helped douse the rallying flames mid-week after Iran test fired nine medium- to long-range missiles, one of which has the range to reach Israel. The instability of that situation...and new testimony by Treasury Secretary Henry Paulson and Fed Chairman Ben Bernanke before the House Financial Services Committee regarding ways Congress can overhaul the financial regulatory system to prevent future crises (the first hearing of its kind)...caused the improvements in the market to fizzle as Traders watched and waited for the finale these events would cause.

As it turned out, last week's finale was a bit of an implosion. Despite Paulson's encouraging words about Fannie Mae and Freddie Mac, Bonds and home loan rates worsened after reports on Friday that the government is considering a plan to take control of both companies if financial problems threaten their collapse. Stock prices of Fannie and Freddie would essentially become worthless if this happens, and Stocks and Bonds both reacted poorly to this news as investor confidence plunged.

Also, another record high for oil (remember higher oil prices means higher inflation, which is the arch enemy of Bonds and home loan rates) added to the implosion and worsening of Bonds and home loan rates on Friday. However, when all the smoke cleared, **Bonds and home loan rates still managed to end the week slightly better than where they began.**

**FIREWORKS MAY BE A FUN PART OF SUMMER, BUT HIGH ENERGY BILLS CERTAINLY AREN'T. CHECK OUT THIS WEEK'S MORTGAGE MARKET VIEW TO LEARN SOME GREAT WAYS TO SAVE ON COOLING COSTS.**

### Forecast for the Week ▶

We could be in for another explosive week, as several reports will show the impact inflation continues to have on the economy. Tuesday will bring the wholesale inflation measuring Producer Price Index as well as the Retail Sales Report, which measures the total receipts of retail stores. Since these numbers reflect consumer spending patterns, this report will show how much of an impact inflation and high oil prices are having on consumer pocketbooks.

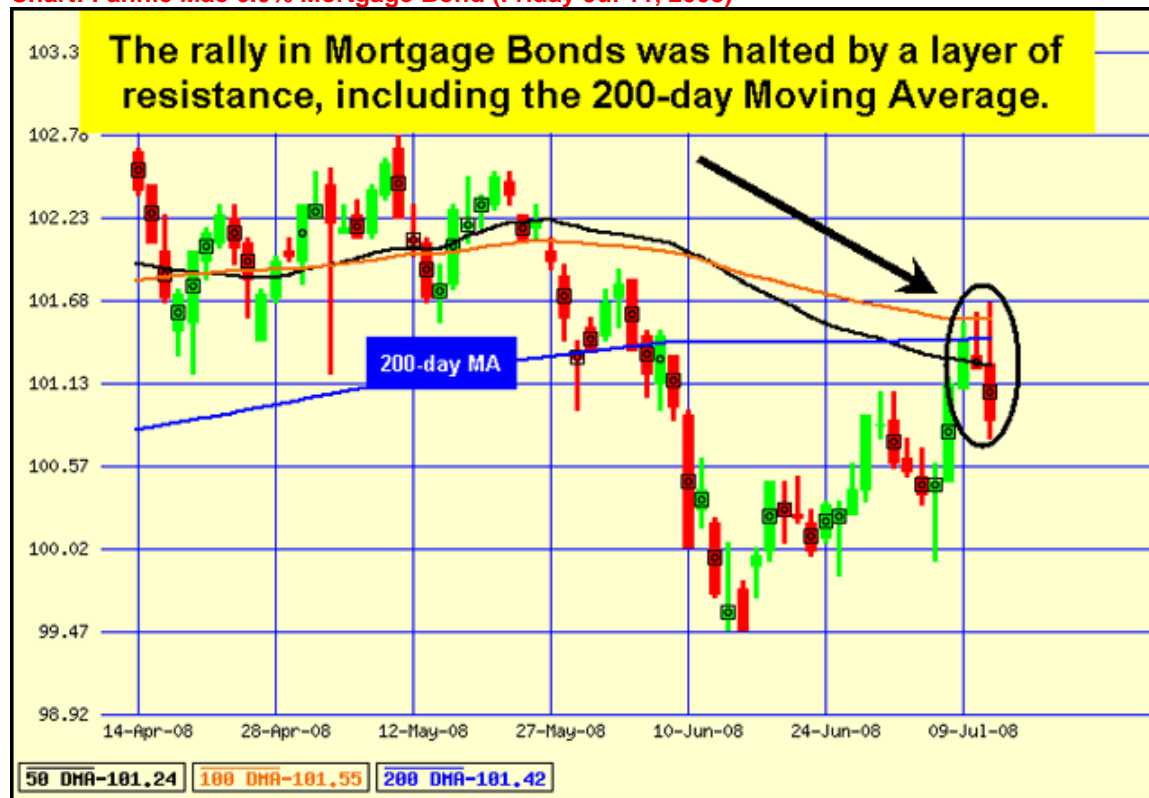
On Wednesday, the Consumer Price Index report will be released, and this widely-watched report will reveal the

level of inflation at the consumer level since it shows how much more expensive goods and services are this month over last month. Also, on Wednesday, we'll get to see the minutes of the Fed's last Federal Open Market Committee meeting. These minutes could cause some sizzle in the markets especially if they give any indication of what the Fed will do about its benchmark rate, the Fed Funds Rate, at the next meeting.

Thursday we will see a read on the housing market via the Housing Starts and Building Permits Report. We'll also learn how much of an impact inflation has had on manufacturing via the Philadelphia Fed Report, which is a monthly survey of manufacturing purchasing managers conducting business around the tri-state area of Pennsylvania, New Jersey, and Delaware.

Remember when Bond prices move higher, home loan rates move lower...and vice versa. The chart below shows how the rally for Bonds and home loan rates fizzled late last week. And since inflation also tends to stop rallies for both Stocks and Bonds, I'll be watching closely as always. **If this week's reports indicate inflation is heating up, this could cause Bond pricing and home loan rates to worsen in response.**

**Chart: Fannie Mae 6.0% Mortgage Bond (Friday Jul 11, 2008)**



[The Mortgage Market View... ▶](#)

## Ways to Save on Cooling Costs

Heating and air conditioning usually represent the biggest portion of home energy bills. As we head into the hottest part of the year, here are some ideas from author and home improvement expert Don Vandervort that will help you stay cool...and save money in the long run:

**Get 'In the Zone':** Creating heating and cooling zones that let parts of your house become warmer and cooler than other parts is a great way to save both energy and money. If your home has a ducted system and wasn't originally designed with a zone system in mind, you can have a professional install a series of motorized dampers in certain ducts that will create a zone effect.

**Install Room Air-Conditioning Units:** If your family spends a majority of time in one room or area of your

home, like the family room or TV room, you can install a window unit or portable unit in that room and use that unit for part of the day instead of turning on your central air conditioning. You can always turn your central air conditioner on for those times of the day when your family is dispersed throughout the house.

**Install Ceiling Fans:** The latest technology means that ceiling fans achieve better air circulation and can now help you save as much as 30% on your energy bill. Be sure to look for the Energy Star designation for energy efficiency.

**Inspect Your Ductwork:** Recent research has shown that central heating and cooling systems that use ductwork can lose as much as 50% of their energy through leaks. It is important to have your ductwork inspected by a contractor every three years to make sure your system is operating at maximum efficiency.

**Install Heat-Recovery Ventilators (HRVs):** Not only do HRVs get rid of air contaminants like odors, dust, and mold, they also grab much of the cold or heat from the outgoing air and recycle it back into your home with the incoming fresh air. These units are especially helpful if your home is tightly sealed.

For even more great home tips and ways to save this summer season, visit [www.hometips.com](http://www.hometips.com).

### 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 July 14 – July 18

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Tue. July 15	08:30	Core Producer Price Index (PPI)	Jun	0.3%		0.2%	Moderate
Tue. July 15	08:30	Producer Price Index (PPI)	Jun	1.3%		1.4%	Moderate
Tue. July 15	08:30	Empire State Index	Jul	-4.0		-8.7%	Moderate
Tue. July 15	08:30	Retail Sales	Jun	0.3%		1.0%	HIGH
Tue. July 15	08:30	Retail Sales ex-auto	Jun	0.8%		1.2%	HIGH
Wed. July 16	08:30	Core Consumer Price Index (CPI)	Jun	0.2%		0.2%	HIGH
Wed. July 16	08:30	Consumer Price Index (CPI)	Jun	0.7%		0.6%	HIGH
Wed. July 16	09:15	Industrial Production	Jun	0.2%		-0.2%	Moderate
Wed. July 16	09:15	Capacity Utilization	Jun	79.4%		79.4%	Moderate
Wed. July 16	10:30	Crude Inventories	7/12	NA		-5840K	Moderate
Wed. July 16	02:00	FOMC Minutes	6/25				HIGH
Thu. July 17	08:30	Building Permits	Jun	970K		969K	Moderate
Thu. July 17	08:30	Housing Starts	Jun	968K		975K	Moderate
Thu. July 17	08:30	Jobless Claims (Initial)	7/12	NA		346K	Moderate
Thu. July 17	10:00	Philadelphia Fed Index	Jul	-15.2		-17.1	HIGH

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

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