Weekly Commentary

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Mortgage rates, producer prices fall

Low rates always are a double-edged sword for the housing market. The Federal Reserve's slashing of rates to the zero bound puts downward pressure on Treasury securities, bank accounts and liquidity instruments crucial to many investor portfolios. We continue to make the case that money market funds and similar liquidity products offer attractive yields compared to deposit accounts with relative safety. But the drop in interest rates has certainly helped those looking for a house, taking out a home equity loan or refinancing. The 30-year conventional mortgage rate decreased in June to near 3%, and subsequently mortgage applications have grown. Surveys of the important sector to the U.S. economy show consistent growth in the last two months. But if the resurgence of the Covid-19 slows the labor market, fear of layoffs may keep potential home buyers at bay. The hope is that the lure of the low rates continues to keep the housing market on this positive path.

Consumer sentiment continues to improve—though it probably will slip due to the spiking cases of the coronavirus—but producer prices fell in June. Among several things, this likely means that the modest inflation policymakers say they want to see before rating rates remains far off.

This week saw 1-month part London interbank offered rate (LIBOR) rise to 0.18% but the 3- and 6-month points slip a basis point each to 0.27% and 0.35%, respectively.

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