

# Financial Market Weekly

2 October 2017

## Economic Commentary

Information out late last month on the housing market is showing mixed signals that the sector's momentum may be slowing. Measures of sales activity have been decelerating over recent months. Existing homes sales since peaking in March of this year at 5.7 million (annual rate) have been trending lower for nearly 5 consecutive months; the August reading came in at 5.35 million. Similarly, the sale of new single family homes since peaking in March at 638 thousand (annual rate) have decelerated to 560 thousand in August.

On the other hand, two measures of prospective activity, housing starts and building permits, have been stable. In fact, permits appear to be trending in an upward bias. A building permit is required to begin construction on a dwelling; the typical cycle from groundbreaking to completion is six months for a single family home and ten months to a year for a multifamily dwelling.

## Rates Commentary

On the back of the FOMC's decision to reduce its \$4.5 trillion balance sheet, yields have traded with a bias to the upside. In fact, the yield on the 2-year Treasury is at its highest level in nearly a decade; one would have to go back to October 2008 to see a closing print at the 1.45 level. The Fed has also done their best to keep a late year hike in the mix giving support to longer dated yields as well. The 10-Year yield bounced off support at the lower end of the range at around the 2.10 level; however, the bias still appears lower. A mixed signal on the economic front is likely causing some angst and driving buyers into longer dated treasuries.

## Outlook

The August data did not appear to be impacted by the landfall of hurricane Harvey on August 25. The fallout from Irma, in Florida, which made landfall on September 9 will likely be apparent in the September data released this month. This week brings a flurry of readings on the health of the manufacturing and construction industries, including survey data on the services sector; to round out the week, the Bureau of Labor Statistics will release its employment report for September. Expect some noise in the data considering this will be the first report with hurricane effects. In July, Texas and Florida contributed more than a quarter (~28%) of job growth.

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## Interest Rate Swap

### Rate Market (vs. 2 weeks ago)

2y Swap: 1.52% (-5 bps)  
5y Swap: 1.74% (-8 bps)  
7y Swap: 1.87% (-9 bps)  
10y Swap: 2.03% (-9 bps)  
30y Swap: 2.34% (-7 bps)

Source: Bloomberg, FRED