Weichert Financial Services
MARKET MONITOR

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Let's Do the Twist

Tim McLaughlin

Q: On Wednesday, the Fed put what is termed as "Operation Twist" into action. I have no idea what that means, but I see mortgage rates have come down some more over the last two days. Can you explain what "Operation Twist" is?

A: "Operation Twist" is a strategy enacted by the Federal Reserve to sell short term Treasuries while simultaneously purchasing longer term Treasuries. The Fed mandated that it would "swap" $400B of short term debt into longer dated securities.

The last time the Fed purchased long term Treasuries was back in the 1960s during the Kennedy administration. The project, started in 1961, was called "Operation Twist." It was intended to lower long term interest rates (to stimulate investment) while propping up short term interest rates (to attract capital from abroad and support the dollar). Economists generally seem to think the experiment flopped, though Fed policy has changed so much between then and now, and the experiment was on such a small scale, that it's hard to draw too many conclusions on how "Operation Twist" will fare today.

In addition to the $400B short/long swap, the Fed also announced that it would be reinvesting proceeds of the $1.25T Mortgage Backed Security purchase initiative from the last two years back into the MBS market as the securities pay off to further support the mortgage sector and continue to stimulate low interest rates.

What does this mean for Interest Rates and Stocks?
Well, we are two days in, and it has been bad news for Equities (combined with concerns of the European debt crisis) and very good news for Fixed Income Rates. The initial knee jerk reaction is warranted on the announcement. The question is will the momentum sustain for a prolonged period of time, or will the markets start to retrace as the global markets digest the news over the weekend?

For now, 3.99% and lower on a 30 year Fixed Mortgage sounds awfully appetizing. And 2.99% with points on a 15 year Mortgage sounds like the refinance opportunity everyone has been waiting for. Purchase or refinance, the opportunity to capitalize on historically low interest rates is right now. Weichert Financial can help…ask us how!

The Week Ahead -> The "Keys"

- Housing Data and GDP highlight the week ahead

Date	Economic Release	Prediction	Last
9/26	**New Home Sales**	**295K**	**298K**
9/26	**New Home Sales (MoM)**	**-1.0%**	**-0.7%**
9/27	**S&P/CaseShiller 20 (MoM)**	**0.10%**	**-0.06%**
9/27	**S&P/CaseShiller 20 (YoY)**	**-4.40%**	**-4.52%**
9/27	S&P/CaseShiller Hiome Index	-	141.30
9/27	Consumer Confidence	46.5	44.5
9/28	**MBA Mortgage Applications**	**-**	**0.6%**
9/28	**Durable Goods Orders**	**-1.0%**	**4.1%**
9/28	**ex Transportation**	**0.2%**	**0.8%**
9/28	Cap Goods Orders	-	-1.5%
9/28	Cap Goods Shipped	-	0.2%
9/29	**GDP (QoQ)**	**1.2%**	**1.0%**
9/29	GDP Price Index	2.4%	2.4%
9/29	Core PCE (QoQ)	2.2%	2.2%
9/29	Initial Jobless Claims	-	423K
9/29	Continuing Claims	-	3727K
9/29	**Pending Home Sales (MoM)**	**-2.1%**	**-1.3%**
9/29	**Pending Home Sales (YoY)**	**-**	**10.1%**
9/30	Personal Income	0.1%	0.3%
9/30	Personal Spending	0.2%	0.8%
9/30	PCE Core (MoM)	0.2%	0.2%
9/30	PCE Core (YoY)	1.7%	1.6%
9/30	**Chicago Purchasing Mgrs**	**56.5**	**56.5**
9/30	**U of Michigan Confidence**	**57.8**	**57.8**

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