

## The Month in Review

November 2009

### What's New?

**Happy Holidays and best wishes for a healthy and prosperous New Year!**

Compass will be continuing its monthly Webinar training series in January and will be hosting a session on *How to Read Daily Market Color Emails*. More information about this session will be sent out next month. If you'd like to be added to the invite list please send an email to Lucy Poole at [lpool@compass-analytics.com](mailto:lpool@compass-analytics.com).

### New in CompassPoint™!

Compass is pleased to report its recent development progress in CompassPoint™, including:

- New Pipeline Valuation Method for Cash Flow Valuations
- Interactive Position Tool w/Dynamic Reconciliation Tool
- Additional RSI Derivation
- Expanded Generic Hedge Library
- Misc. Grid/Adjuster Options
- Misc. Reporting Efficiencies
- LMM Model - Enhanced Volatility Normalization & Diagnostics

CompassPoint™ features and capabilities reflect the business needs as defined and requested by its users. For additional information on new features or to submit suggestions and requests, please contact Rob Kessel at 415-462-7500 or e-mail at [rkessel@compass-analytics.com](mailto:rkessel@compass-analytics.com).

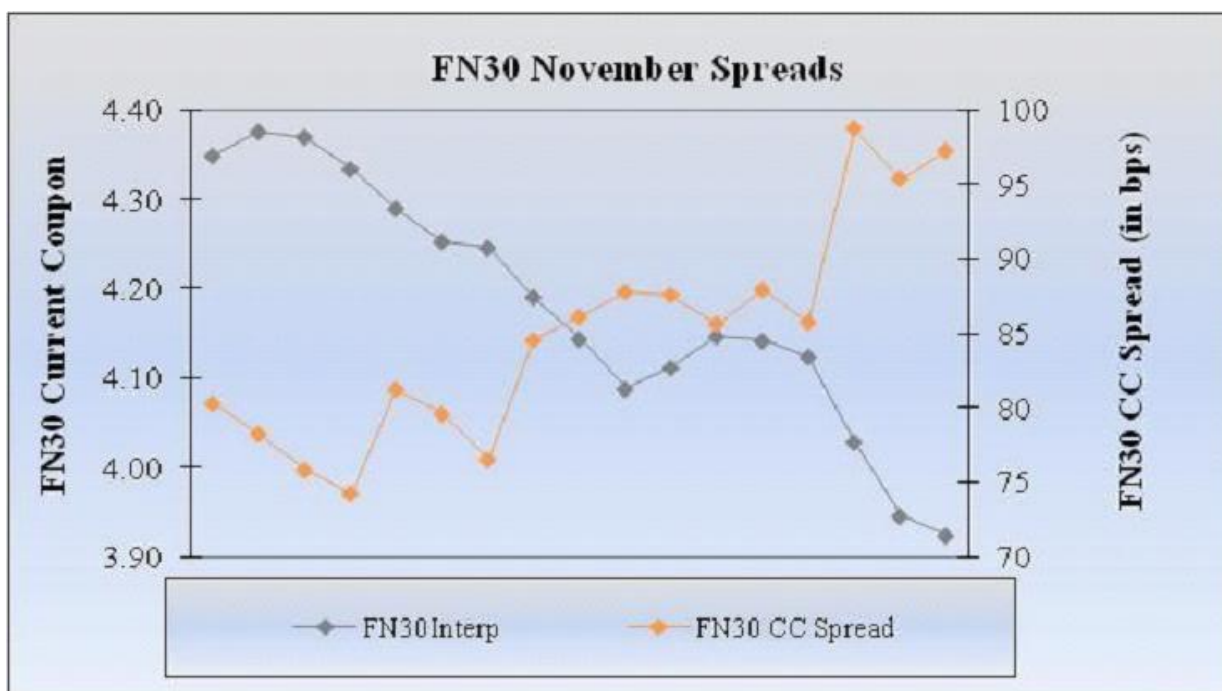
## Market Update

Most of November was spent watching rates move down towards the lower end of the recent range. The 10-yr treasury yield, which began the month in the 3.50% area, pushed its way down to around 3.20% and mortgage prices rallied alongside treasuries, even outperforming treasuries and swaps much of the month. The turn to December saw a reversal of this move as 10-yr yields climbed back towards 3.50% and mortgage prices gave back much of the gains garnered in November. We head towards year-end still trading within this range.

Concerns over the status of outstanding debt in Dubai caused some temporary panic at the end of November, but the monthly Non-farm Payroll report was, as it often is, the biggest story of the month for fixed income markets. A loss of only 11,000 jobs in November was better than even the most hopeful projections of equity bulls. On top of the November number, which was a full 100k better than the consensus expectation, were significant revisions to the October and September reports, reducing losses in those months, as well.

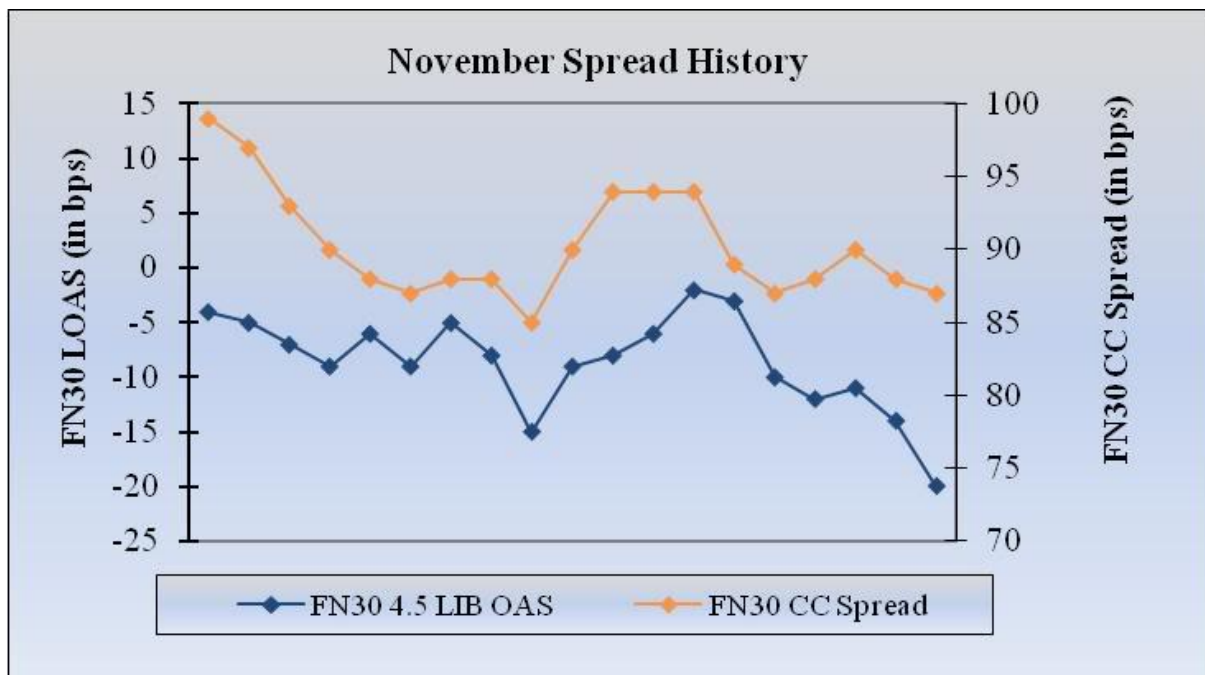
While the 10-yr treasury yield climbed to 3.50% quicker than it had dropped to 3.20%, a break above that level has, so far, been contained. It's likely that the fixed income and equity markets are going to need to see more than one employment report similar to November's before a sustained move towards higher rates can take place. It is still assumed that the Fed is on hold well into 2010 which helps keep rates in check in the near term. A range-bound trade to finish the year looks like a reasonable possibility, which is good news for mortgage originators that still remember the difficulties caused by the rapid drop in rates over last year's holiday season. *-Lindsay Hill*

## Margin Tracker



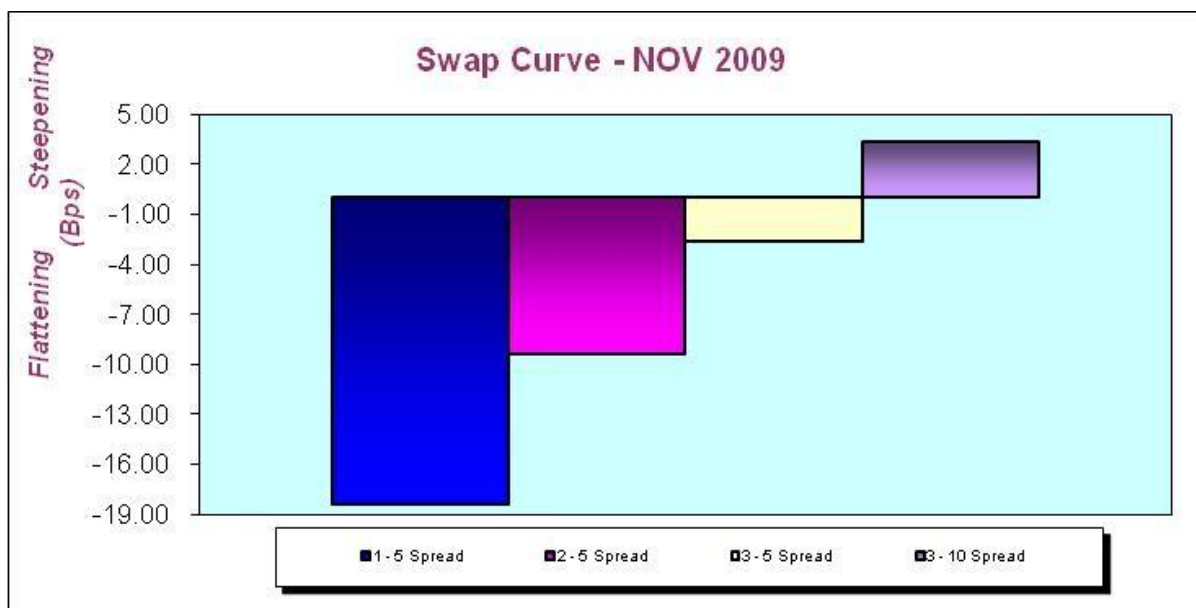
The FN30 CC Spread is the difference between the FN30 Note Rate and the FN30 Current Coupon, in basis points. The FN30 NR is the average conventional note rate across a subset of Compass's client base normalized for volume. The FN30 CC is the Fannie 30-year Mortgage Backed Security yield at par 30 days out. The difference between these numbers gives an indication as to how much margin is priced into the secondary market. The primary factors are interest rates and warehouse line constraints. Lenders may also be slower to improve rates during a rally, and quick to drop their pricing during a sell-off. During September, there was a 24bp peak to trough differential. Shown in the chart above, there is a noticeable negative correlation between rates and spreads. As rates dropped throughout the month, there is a noticeable increase in margins. The tightest the spread got was 74bps; the widest was 98bps; the average was 85bps. *-David Bennett*

## Monthly Spreads



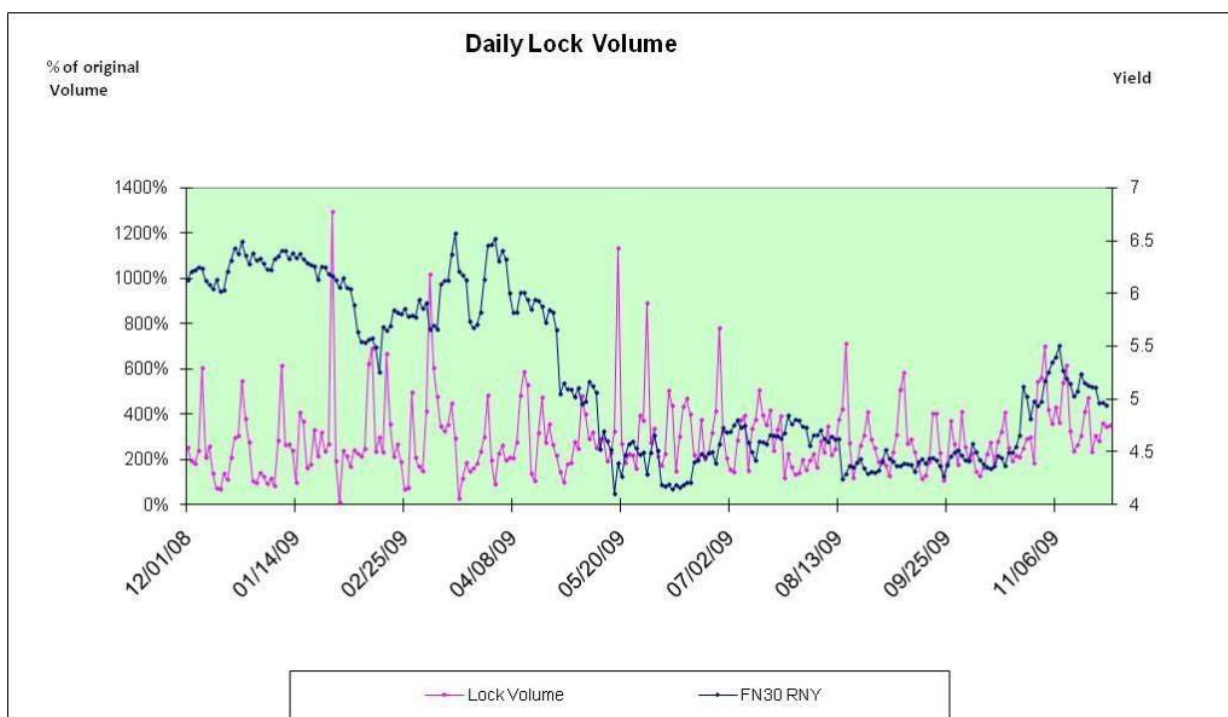
Spreads showed increased volatility during the month, widening at the end of the month. The Treasury 2-10's spread increased again for November month end up to 254bps from 249bps the previous month end. -Glen Brown

## Swap Curve Analysis



Yields dropped consistently across all tenors throughout November, with the 1 year falling 18 bps, followed by the 2 year, which dropped 27 bps. The 3, 5, and 10 year swap yields each fell between 30 and 36 bps from October to November, leading to a flatter curve. In November's biggest daily move the 10 year swap yield was down 12.5 bps. The 1-10 LIBOR/Swap spread tightened about 12 bps to 228 bps. *-Dylan Faerstein*

## Production Index



Production in November decreased while rates traded in a narrower range (18bp range in November versus 32bp in October), with the average yield decreasing month over month by 9 bps. Average volume for the month was 313% of our base volume (vs. 327% in October) ranging from a low of 114% to a high of 633%. The average yield on the FN30 RNY in November was 4.57% (vs. 4.65% in October) ranging from a low of 4.34% to a high of 4.74%. **-Brandon Case**