



## Biden and McCarthy Reach Debt Ceiling Deal - House Set to Vote on the Bill

June 1, 2023

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### MARKET MOVING HEADLINES

- House to vote on Biden-McCarthy debt ceiling bill.
- The number of job vacancies in the US unexpectedly increased by 358,000.
- The Dallas Fed general business activity index for Texas' service sector falls more than forecasted.
- Chile industrial production contracts for third month.
- Canadian GDP growth stronger than expected.
- The euro continues to weaken on cooling inflationary pressures.
- German inflation rate declines to 6.1% year-on-year in May 2023.
- Steel rebar futures approach a 3-year low.
- Oil prices fall nearly 11% in May 2023.
- Palm oil sinks to 9-month low.
- US mortgage rates are the highest since November 2022.

## INTEREST RATES



### Interest Rates

#### US TREASURY MARKET

MATURITY	YIELD	7-DAY CHANGE
3M	5.43%	1.12%
2Y	4.44%	-0.89%
5Y	3.78%	-2.33%
10Y	3.66%	-3.43%
30Y	3.87%	-3.01%

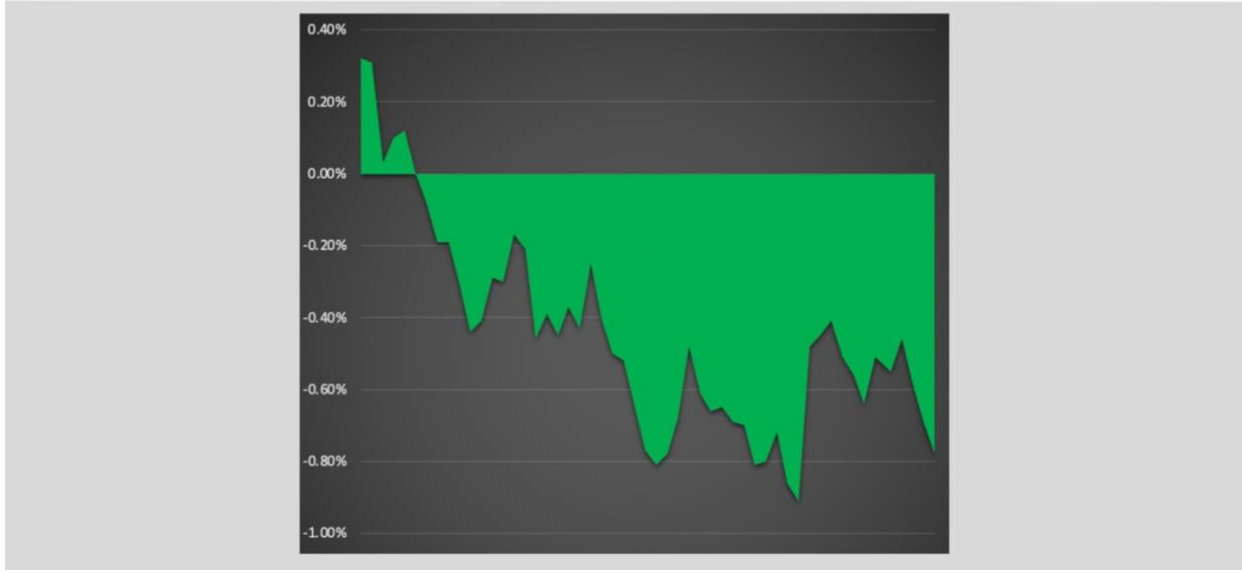


### Interest Rates

#### 2Y - 10Y SPREAD

DATE	SPREAD
4/10/23	-0.56%
4/17/23	-0.64%
4/24/23	-0.51%
5/4/23	-0.55%
5/11/23	-0.46%
5/18/23	-0.58%
5/25/23	-0.69%
6/1/23	-0.78%

## 2Y-10Y SPREAD - PAST 12 MONTHS



## CURRENCIES

### Currencies

CURRENCY PAIR	PRICE	7-DAY CHANGE
EUR/USD	1.064	-0.75%
USD/JPY	139.790	-0.08%
GBP/USD	1.239	0.57%
AUD/USD	0.646	-0.77%
USD/CAD	1.360	-0.22%
USD/CNY	7.130	0.55%
USD/CHF	0.914	0.77%
USD/HKD	7.831	-0.05%
USD/MXN	17.731	-0.39%
USD/KRW	1325.400	-0.33%

**COMMODITIES**



## Commodities

COMMODITY	PRICE	7-DAY CHANGE
Brent Crude Oil	73.260	-3.26%
WTI Crude Oil	68.716	-4.19%
Natural Gas	2.296	0.66%
Gold	1965.160	1.08%
Silver	23.483	2.97%
Copper	3.365	-6.27%
Steel	3474.000	0.96%
Coffee	178.550	-1.90%
Sugar	25.020	0.40%
Cocoa	3006.000	-0.20%
Cotton	83.020	3.57%

**CONCEPT OF THE WEEK: HEDGING MORTGAGE SERVICING RIGHTS**

Mortgage servicing rights (MSRs) are fees earned by mortgage originators to service a sold mortgage loan. This often includes collecting payments, managing escrow accounts, and handling customer service. Selling the loan and retaining the MSR creates an asset for the institution whereby the institution retains a portion of the loan interest payment in exchange for servicing the loan.

Rate movements impacting mortgage payments will dictate the MSR fees earned from the loan. Changes in MSR earned income can be noticeable in a volatile interest rate environment. MSRs can be hedged to make the interest income earned more predictable and stable.

The steps to hedge MSRs will often include the following:

- **Determine your exposure:** Quantify the interest rate exposure of the MSRs. Assuming the risk is meaningful, then one would move on to the next steps.
- **Choose an appropriate hedging instrument:** For hedging MSRs, this is often interest rate swaps or Treasury futures.

- **Determine the appropriate hedge ratio:** This is the ratio of the hedging instrument to the MSR portfolio. This appropriate ration will be dependent on factors such as the duration of the MSRs, the interest rate sensitivity, and the institution’s risk tolerance.
- **Execute the hedge:** For interest rate swaps this will require finding a counterparty willing to trade with the organization. For Treasury futures, these can be traded on an exchange.
- **Monitor and adjust:** Continuously monitor the performance of the hedge and the underlying MSRs. Adjust the hedge position as needed based on changes in interest rates and the behavior of the MSR portfolio.

It is generally advisable to work with an experienced professional who has expertise in MSR hedging and interest rate derivatives.

## QUOTE OF THE WEEK

“It isn’t what you don’t know that gets you in trouble. It’s what you know for sure that just isn’t so.” – Mark Twain

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