MBS Highway™
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Road Signs
Weekly Newsletter

Provided to you by
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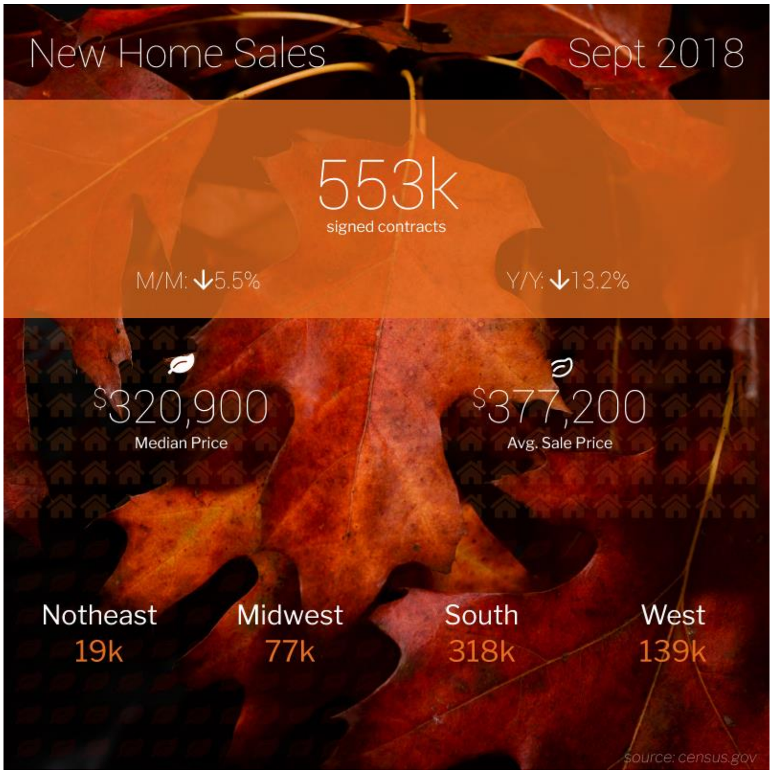
Weekly Review

The stock market suffered another horrible week to add to October's reputation for being one of the worst investing months. So far for October, the Dow Jones Industrial Average is 6.7% lower; the S&P 500 Index is down 8.8%; the Nasdaq Composite Index is down 10.9%; and the small cap Russell 2000 Index is 12.5% lower. The equity market weakness and volatility along with some uninspiring economic data sparked increased demand for bonds and Treasuries, sending the yield on the benchmark 10-year Treasury note sharply lower for the week.

Economic reports released during the week were mixed. Durable Goods Orders were slightly higher (+0.8%) in September but were considerably lower than August (+4.6%) and declined when excluding orders for defense aircraft. On Friday, the Commerce Department reported its Advance Estimate of 3rd Quarter Gross Domestic Product (GDP) expanded at an annualized rate of 3.5%, slightly above consensus estimate of 3.3%. However, investors are more concerned about future GDP growth and possible negative impacts to GDP caused by tariffs on overseas sales and input costs. To be sure, U.S. tariffs are having a negative effect on the Chinese economy and there are signs of slowing economic growth in Europe, and investors are worried that a global economic slowdown will eventually lead to a slowdown here as well in the U.S.

In housing, the Census Bureau reported last Wednesday that New Home Sales fell 5.5% month-over-month in September to a seasonally adjusted annual rate of 553,000.



This was below the consensus forecast of 625,000 and was the weakest sales rate since December 2016. Furthermore, August New Home Sales were revised sharply lower to 585,000 from 629,000.

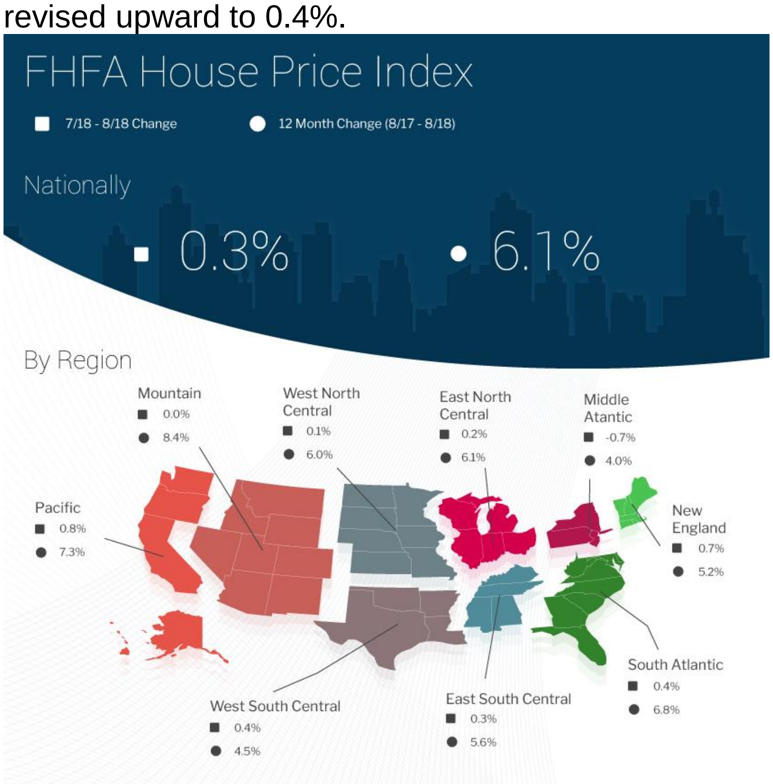
Regionally, sales were off -40.6% in the Northeast; up +6.9% in the Midwest; down -1.5% in the South; and -12.0% lower in the West.

The median sales price of $320,000 was down 3.5% from the year-ago period while the average sales price of $377,200 was down 0.6% from the year-ago period.

Homes priced at $400,000 or above accounted for 31% of new homes sold compared to 34% in August, suggesting there are affordability issues for buyers due to rising mortgage rates.

There were 7.1-months of inventory of new homes based on the September sales rate and this is the highest supply level since March 2011. Although median and average home prices were both lower year-over-year, it appears lower prices aren't resulting in a greater number of new home sales due to rising mortgage rates having a negative impact on demand.

Also on Wednesday, Federal Housing Finance Agency (FHFA) announced their FHFA House Price Index (HPI) moved 0.3% higher in August. Also, the previously reported 0.2% increase in July was revised upward to 0.4%.



On an annual basis from August 2017 to August 2018, house prices have appreciated 6.1%.

For the nine census divisions, seasonally adjusted monthly price changes from July 2018 to August 2018 fluctuated from -0.7% in the Middle Atlantic division to +0.8% in the Pacific division.

The 12-month changes were all positive, ranging from +4.0% in the Middle Atlantic division to +8.4% in the Mountain division.

Thursday, the National Association of Realtors (NAR) released their Pending Home Sales report showing pending sales rose 0.5% in September. However, on a year-over-year basis monthly annual sales were 1.0% lower. This was the ninth straight month of annual sales declines. Lawrence Yun, chief economist for the NAR, had this to say "This shows that buyers are out there on the sidelines, waiting to jump in once more inventory becomes available and the price is right. The general condition of the economy is excellent; it simply has not lifted home sales this year. Home prices are still rising, so people who are purchasing are still seeing wealth gains."

Regionally, pending home sales in the Northeast declined 0.4% for the month and were 2.7% below a year ago. In the Midwest, sales increased 1.2% monthly but retreated 1.1% annually. In the South, sales dropped 1.4% monthly but were 3.3% higher than a year ago. As for the West, sales increased 4.5% monthly but declined 7.4%on a year-over-year basis. Also, homes in the West are the most expensive on average in the nation.

Affordability has increasingly been weighing on buyers. Mortgage interest rates began rising at the beginning of September and are now a full percentage point higher than a year ago.

Elsewhere, the latest data from the Mortgage Bankers Association's (MBA) weekly mortgage applications survey showed the number of mortgage applications increased from the prior week. The MBA reported their overall seasonally adjusted Market Composite Index (application volume) climbed 4.9% for the week ended October 19, 2018. The seasonally adjusted Purchase Index increased 2.0% from the week prior while the Refinance Index increased 10.0%.

Overall, the refinance portion of mortgage activity increased to 39.8% from 38.1% of total applications from the prior week. The adjustable-rate mortgage share of activity decreased to 7.0% from 7.1% of total applications. According to the MBA, the average contract interest rate for 30-year fixed-rate mortgages with a conforming loan balance increased to 5.11% from 5.10% with points decreasing to 0.52 from 0.55 for 80 percent loan-to-value ratio (LTV) loans.

For the week, the FNMA 4.0% coupon bond gained 46.8 basis points to close at $100.359 while the 10-year Treasury yield dropped 11.7 basis points to end at 3.0770%. The Dow Jones Industrial Average lost 756.03 points to close at 24,688.31. The NASDAQ Composite Index fell 281.82 points to close at 7,167.21. The S&P 500 Index dropped 109.09 points to close at 2,658.69. Year to date on a total return basis, the Dow Jones Industrial Average has lost 0.13%, the NASDAQ Composite Index has gained 3.82%, and the S&P 500 Index has dropped 0.56%.

This past week, the national average 30-year mortgage rate fell to 4.94% from 4.99%; the 15-year mortgage rate decreased to 4.43% from 4.47%; the 5/1 ARM mortgage rate dropped to 4.45% from 4.51% while the FHA 30-year rate decreased to 4.42% from 4.50%. Jumbo 30-year rates fell to 4.38% from 4.42%.

Economic Calendar - for the Week of October 29, 2018

Economic reports having the greatest potential impact on the financial markets are highlighted in bold.

Date	Time ET	Event /Report /Statistic	For	Market Expects	Prior
Oct 29	**08:30**	**Personal Consumption Expenditures (PCE) Prices**	**Sept**	**0.1%**	**0.1%**
Oct 29	**08:30**	**Core PCE Prices**	**Sept**	**0.1%**	**0.0%**
Oct 29	**08:30**	**Personal Income**	**Sept**	**0.4%**	**0.3%**
Oct 29	**08:30**	**Personal Spending**	**Sept**	**0.4%**	**0.3%**
Oct 30	09:00	Case-Shiller 20-city Index	Aug	5.9%	5.9%
Oct 30	**10:00**	**Consumer Confidence Index**	**Oct**	**135.8**	**138.4**
Oct 31	07:00	MBA Mortgage Applications Index	10/27	NA	4.9%
Oct 31	**08:15**	**ADP Employment Change**	**Oct**	**180,000**	**230,000**
Oct 31	**08:30**	**Employment Cost Index**	**Q3**	**0.7%**	**0.6%**
Oct 31	**10:30**	**EIA Crude Oil Inventories**	**10/27**	**NA**	**+6.3M**
Nov 01	08:30	Preliminary 3rd Quarter Productivity	Qtr. 3	2.1%	2.9%
Nov 01	**08:30**	**Preliminary 3rd Quarter Unit Labor Costs**	**Qtr. 3**	**1.1%**	**-1.0%**
Nov 01	**08:30**	**Initial Jobless Claims**	**10/27**	**213,000**	**215,000**
Nov 01	08:30	Continuing Jobless Claims	10/20	NA	1,636K
Nov 01	10:00	Construction Spending	Sept	0.2%	0.1%
Nov 01	**10:00**	**ISM Manufacturing Index**	**Oct**	**59.0**	**59.8**
Nov 02	**08:30**	**Nonfarm Payrolls**	**Oct**	**190,000**	**134,000**
Nov 02	**08:30**	**Nonfarm Private Payrolls**	**Oct**	**185,000**	**121,000**
Nov 02	**08:30**	**Unemployment Rate**	**Oct**	**3.7%**	**3.7%**
Nov 02	**08:30**	**Average Hourly Earnings**	**Oct**	**0.2%**	**0.3%**
Nov 02	08:30	Average Workweek	Oct	34.5	34.5
Nov 02	08:30	Balance of Trade	Sept	-$53.4B	-$53.2B
Nov 02	10:00	Factory Orders	Sept	0.4%	2.3%

Mortgage Rate Forecast with Chart - FNMA 30-Year 4.0% Coupon Bond

The FNMA 30-year 4.0% coupon bond ($100.359, +46.8 bp) traded within a wider 59.4 basis point range between a weekly intraday low $99.844 on Monday and a weekly intraday high of 100.438 on Friday before closing the week at $100.359 on Friday. After trading slightly lower last Monday toward support, mortgage bonds bounced higher the rest of the week toward the first resistance level at the 25-day moving average ($100.366).

Mortgage bonds are showing a buy signal as the slow stochastic oscillator is trending higher and has just crossed back above the “20” oversold trigger line. This suggests the bond could continue to rise and challenge overhead resistance levels – especially if the stock market continues to struggle this last week in October. While some stock market mavens believe we may have seen a peak in the stock market and an end to this historically long bull market, there are others who believe the stock market has yet to undergo one last “blow-off top” before selling off for perhaps a decade or more. While no one knows for sure what will happen, it appears in the short-term stocks are under selling pressure and this should benefit the bond market and push yields and mortgage rates slightly lower.

200 DMA
100 DMA
50 DMA
25 DMA
FNMA 30YR 4%
FNMA 4.0% 30-yr Coupon Bond
$100.359 - 10/26/18
50% 102.782
61.8% 102.059
76.4% 101.164
100% 99.719
200-day MA
100-day MA
50-day MA
25-day MA
Resistance = 100.609
Resistance = 100.366
Support = 99.719
Support = 99.500
Stochastic
%K (21)
%D (3 DMA)
= Buy Signal
= Sell Signal
Overbought = > 80
Oversold = < 20