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Road Signs

Weekly Newsletter

Provided to you by
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Contents

Weekly Review

The stock market managed to bounce higher during a volatile week of trading while bond yields were pushed higher (bond prices lower) as stock prices rose, and after the release of strong employment data from last Friday's Employment Situation Summary (Jobs Report) for October.

Also adding some spice to trading during the week were a steady stream of reports and rumors that the U.S. is getting ready to slap tariffs on all remaining Chinese imports if no progress is made in trade negotiations between the two superpowers during the upcoming G20 summit in Argentina on November 30 and December 1. The G20 summit is a meeting of finance ministers and leaders from Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States, and the European Union. One major sticking point in negotiations is the rampant "theft of intellectual property"– primarily theft of U.S. technology by the Chinese that costs U.S. companies an estimated $225 billion to $600 billion annually.

Investor sentiment was lifted on Thursday following a tweet by President Trump that he had a long conversation with Chinese President Xi and "discussions are moving along nicely." However, sentiment sagged like a wet chalupa on Friday when the Administration's economic adviser Larry Kudlow stated on CNBC that the U.S. is "not on the cusp" of a trade deal with China. Currently, the U.S. has tariffs on $250 billion worth of Chinese imports – almost half the value of all goods imported from China during the last year.

The highlight of this past week's economic calendar was the Employment Situation Summary for October.

Nonfarm Payrolls increased by 250,000 and this was higher than the consensus forecast of 190,000.

Average Hourly Earnings increased 0.2% for October as expected, and have increased over the course of the year by 3.1%.

The unemployment rate remained at 3.7%, almost a 50-year low. The strong jobs data suggests the Federal Reserve will remain on their path to tighten monetary policy. While the Federal Reserve's Federal Open Market Committee (FOMC) will be meeting this week, no rate hike is expected with a probability of only 7.2% for a 25 basis point hike. However, the probability for the next rate hike is currently 79.2% at the Fed's December 19 FOMC meeting.

In housing, the latest data from the Mortgage Bankers Association's (MBA) weekly mortgage applications survey showed the number of mortgage applications declined from the prior week. The MBA reported their overall seasonally adjusted Market Composite Index (application volume) dropped 2.5% for the week ended October 26, 2018. The seasonally adjusted Purchase Index decreased 2.0% from the week prior while the Refinance Index fell 4.0%.

Overall, the refinance portion of mortgage activity decreased to 39.4% from 39.8% of total applications from the prior week. The adjustable-rate mortgage share of activity increased to 7.6% from 7.0% of total applications, its highest level since May 2017. According to the MBA, the average contract interest rate for 30-year fixed-rate mortgages with a conforming loan balance remained unchanged at 5.11% with points decreasing to 0.50 from 0.52 for 80 percent loan-to-value ratio (LTV) loans.

For the week, the FNMA 4.0% coupon bond lost 81.2 basis points to close at $99.547 while the 10-year Treasury yield increased 14.3 basis points to end at 3.220%. The Dow Jones Industrial Average gained 582.52 points to close at 25,270.83. The NASDAQ Composite Index rose 189.78 points to close at 7,356.99. The S&P 500 Index added 64.37 points to close at 2,723.06. Year to date on a total return basis, the Dow Jones Industrial Average has gained 2.23%, the NASDAQ Composite Index has gained 6.57%, and the S&P 500 Index has added 1.85%.

This past week, the national average 30-year mortgage rate rose to 5.04% from 4.94%; the 15-year mortgage rate increased to 4.52% from 4.43%; the 5/1 ARM mortgage rate climbed to 4.60% from 4.45% while the FHA 30-year rate increased to 4.55% from 4.42%. Jumbo 30-year rates increased to 4.54% from 4.38%.

Economic Calendar - for the Week of November 5, 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
Nov 05	**10:00**	**ISM Services Index**	**Oct**	**58.8**	**61.6**
Nov 06	10:00	JOLTS Job Openings Report	Sept	NA	7.136M
Nov 07	07:00	MBA Mortgage Applications Index	11/03	NA	-2.5%
Nov 07	**10:30**	**Crude Oil Inventories**	**11/03**	**NA**	**+3.2M**
Nov 07	15:00	Consumer Credit	Sept	$14.5B	$20.1B
Nov 08	**08:30**	**Initial Jobless Claims**	**11/03**	**213,000**	**214,000**
Nov 08	08:30	Continuing Jobless Claims	10/27	NA	1,631K
Nov 08	**14:00**	**Federal Reserve's FOMC Interest Rate Decision**	**Nov**	**2.125%**	**2.125%**
Nov 09	**08:30**	**Producer Price Index (PPI)**	**Oct**	**0.2%**	**0.2%**
Nov 09	**08:30**	**Core PPI**	**Oct**	**0.2%**	**0.2%**
Nov 09	**10:00**	**Preliminary Univ. of Mich. Consumer Sentiment**	**Nov**	**98.0**	**98.6**
Nov 09	10:00	Wholesale Inventories	Sept	0.3%	1.0%

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

The FNMA 30-year 4.0% coupon bond ($99.547, -81.2 bp) traded within a wider 81.3 basis point range between a weekly intraday high $100.344 on Monday and a weekly intraday low of 99.531 on Friday before closing the week at $99.547 on Friday.

Mortgage bond prices failed to advance in the face of a rebounding stock market, negating the prior buy signal and technically oversold status. There are times when technical signals just fail to work out and last week was a good example of this.

The bond once again finds itself "oversold" and close to support levels following a new sell signal last Wednesday from a negative slow stochastic crossover. The stock market remains "on edge" over trade with China. If a trade deal can be worked out with an end to the tariff war with China, the stock market will likely undergo a strong rally.

However, until such time a deal is reached, the stock market will likely remain volatile and could continue to undergo a correction which would push bond prices higher and yields and interest rates slightly and at least temporarily lower. However, it is unlikely any trade deal between the U.S. and China will take place until after the G20 summit. President Trump has offered to host a dinner for Chinese President Xi Jinping on December 1 in Buenos Aires after the summit, an invitation Xi Jinping has tentatively accepted.

FNMA 4.0% 30-yr Coupon Bond
$99.547 - 11/02/18
200-day MA
100-day MA
50-day MA
25-day MA
Resistance = 100.609
Resistance = 100.242
Support = 99.719
Support = 99.500
= Buy Signal
= Sell Signal
Overbought = > 80
Oversold = < 20