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Weekly Newsletter

Provided to you by

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Contents

- **Weekly Review: week of November 5, 2018**
- **Economic Calendar - week of November 12, 2018**
- **Mortgage Rate Forecast with Chart**

Weekly Review

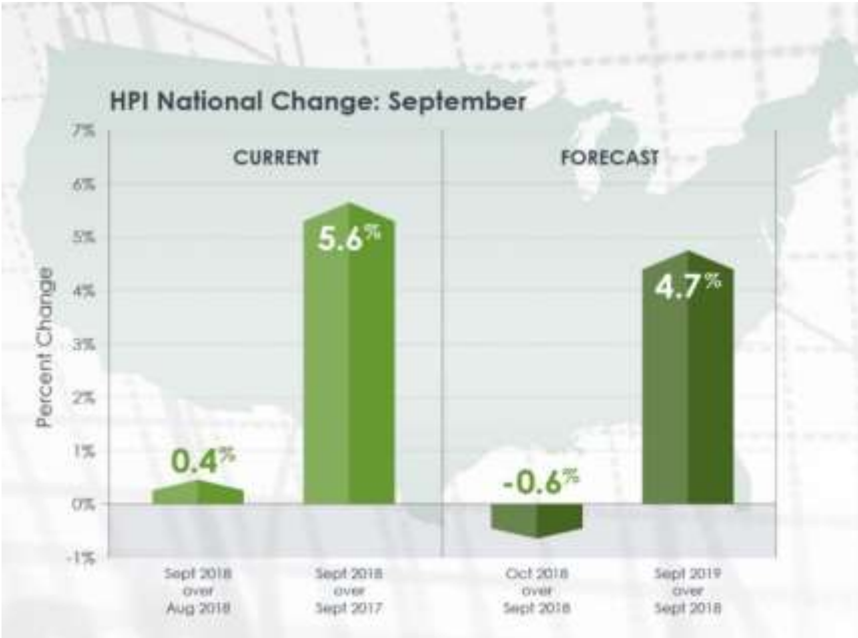
The stock market continued to advance this past week while the bond market was mostly directionless. Traders focused their attention on the midterm elections last Tuesday and seemed delighted at the prospects of legislative gridlock when it became apparent Democrats would take back the House of Representatives while the Republicans would remain in control of the Senate.

In fact, the major stock market indexes moved sharply higher on Wednesday with the S&P 500 Index registering its third-best daily gain over the past year. Historically, the stock market has performed well in years with a Republican president and divided Congress, plus stocks rally on average by 37% after midterm elections and have rallied after every midterm election since 1946.

Thursday, the Federal Reserve released its latest monetary policy statement announcing it decided to leave the fed funds rate unchanged as was widely expected. The Fed stated it expects to continue rate hikes as long as there is sustained economic growth, a strong labor market, and inflation close to its 2% target. It is extremely likely the Fed will put a lump of coal in everyone's Christmas stocking by raising rates at its upcoming December 19 FOMC meeting. The Fed Funds Futures market currently pricing in a 75.8% probability for another 25 basis point rate hike.

In housing last Tuesday, CoreLogic® released their CoreLogic Home Price Index (HPI) and HPI Forecast for September 2018, showing home prices increased both year-over-year (+5.6%) and month-over-month (+0.4%).

The forward-looking CoreLogic HPI Forecast projects home prices will increase by 4.7% on a year-over-year basis from September 2018 to September 2019 and on a month-over-month basis, home prices are forecast to decrease by 0.6% from September to October 2018.



CoreLogic chief economist Dr. Frank Nothaft stated "The erosion of affordability in the highest cost markets has begun to slow home price growth. Hawaii, California and Massachusetts had median sales prices above $400,000 this summer, the highest in the nation, while annual home price growth slowed steadily between June and September in these three states.

When comparing September 2018 with September 2017, annual price appreciation slowed more in these states than in the U.S. overall.

Nationally, annual price growth slowed 0.5 percentage points. However, in Hawaii, California and Massachusetts, growth rates decreased by 1.7, 0.7 and 1.0 percentage points, respectively." Frank Martell, president and CEO of CoreLogic, commented "Our consumer research indicates younger millennials want to purchase homes but the majority of them consider affordability a key obstacle. Less than half of younger millennials who are currently renting feel confident they will qualify for a mortgage, especially in such a competitive environment."

According to the CoreLogic Market Condition Indicators (MCI), an analysis of housing values in the country's 100 largest metropolitan areas based on housing inventory, 38% of metropolitan areas have an overvalued housing market as of September 2018. The MCI analysis categorizes home prices in individual markets as undervalued, at value or overvalued, by comparing home prices to their long-run, sustainable levels, which are supported by local market fundamentals (such as disposable income). Additionally, as of September 2018, 19% of the top 100 metropolitan areas were undervalued, and 43% were at value.

When looking at only the top 50 markets based on housing inventory, 46% were overvalued, 14% were undervalued, and 40% were at value. The MCI analysis defines an overvalued housing market as one in which home prices are at least 10% above the long-term, sustainable level. An undervalued housing market is one in which home prices are at least 10% below the sustainable level.

As for mortgages, the latest data from the Mortgage Bankers Association's (MBA) weekly mortgage applications survey showed the number of mortgage applications fell from the prior week. The MBA reported their overall seasonally adjusted Market Composite Index (application volume) declined 4.0% for the week ended November 2, 2018. The seasonally adjusted Purchase Index decreased 5.0% from the week prior while the Refinance Index fell 3.0%.

Overall, the refinance portion of mortgage activity decreased to 39.1% from 39.4% of total applications from the prior week. The adjustable-rate mortgage share of activity increased to 7.8% from 7.6% 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 5.15% from 5.11% with points increasing to 0.51 from 0.50 for 80 percent loan-to-value ratio (LTV) loans.

For the week, the FNMA 4.0% coupon bond gained 4.7 basis points to close at $99.594 while the 10-year Treasury yield decreased 3.07 basis points to end at 3.1893%. The Dow Jones Industrial Average gained 718.47 points to close at 25,989.30. The NASDAQ Composite Index rose 49.91 points to close at 7,406.90. The S&P 500 Index added 57.95 points to close at 2,781.01. Year to date on a total return basis, the Dow Jones Industrial Average has gained 5.14%, the NASDAQ Composite Index has gained 7.29%, and the S&P 500 Index has added 4.02%.

This past week, the national average 30-year mortgage rate rose to 5.05% from 5.04%; the 15-year mortgage rate increased to 4.53% from 4.52%; the 5/1 ARM mortgage rate fell to 4.41% from 4.60% while the FHA 30-year rate increased to 4.57% from 4.55%. Jumbo 30-year rates increased to 4.61% from 4.54%.

Economic Calendar - for the Week of November 12, 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 13	06:00	NFIB Small Business Optimism Index	Oct	108.0	107.9
Nov 13	14:00	Treasury Budget	Oct	-$98.0B	$119.1B
Nov 14	07:00	MBA Mortgage Applications Index	11/10	NA	-4.0%
Nov 14	**08:30**	**Consumer Price Index (CPI)**	**Oct**	**0.3%**	**0.1%**
Nov 14	**08:30**	**Core CPI**	**Oct**	**0.2%**	**0.1%**
Nov 14	**10:30**	**Crude Oil Inventories**	**11/10**	**NA**	**+5.8M**
Nov 15	**08:30**	**Retail Sales**	**Oct**	**0.5%**	**0.1%**
Nov 15	**08:30**	**Retail Sales excluding automobiles and light**	**Oct**	**0.5%**	**-0.1%**
Nov 15	**08:30**	**Initial Jobless Claims**	**11/10**	**214,000**	**214,000**
Nov 15	08:30	Continuing Jobless Claims	11/3	NA	1,623K
Nov 15	**08:30**	**New York Empire State Empire Manufacturing**	**Nov**	**20.0**	**21.1**
Nov 15	08:30	Import Prices	Oct	NA	0.5%
Nov 15	08:30	Import Prices excluding oil	Oct	NA	0.0%
Nov 15	08:30	Export Prices	Oct	NA	0.0%
Nov 15	08:30	Export Prices excluding agriculture	Oct	NA	0.2%
Nov 15	**08:30**	**Philadelphia Fed Manufacturing Index**	**Nov**	**20.5**	**22.2**
Nov 15	10:00	Business Inventories	Sept	0.3%	0.5%
Nov 16	09:15	Industrial Production	Oct	0.3%	0.3%
Nov 16	09:15	Capacity Utilization	Oct	78.2%	78.1%
Nov 16	16:00	Net Long-Term TIC Flows	Aug	NA	$131.8B

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

The FNMA 30-year 4.0% coupon bond ($99.594, +4.7bp) traded within a narrower 46.8 basis point range between a weekly intraday high $99.859 on Wednesday and a weekly intraday low of 99.391 on Thursday before closing the week at $99.594 on Friday.

Mortgage bond prices remained "oversold" while trading in a mostly "sideways" direction near support at the 100% Fibonacci retracement level. There was a weak buy signal on Friday from a positive stochastic crossover. This suggests prices could move toward resistance found at the 25-day moving average at $99.987 and should this occur, mortgage rates will remain stable with the possibility of a slight improvement in rates.