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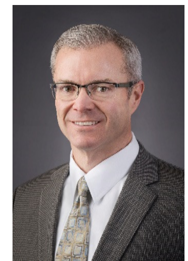
Weekly Newsletter

Provided to you by
Lee McLain

Lee McLain
First Federal Bank of
Kansas City
816.728.7700
lee.mclain@ffbkc.com
NMLS:680316



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Weekly Review

It was another volatile week for Stocks. Headlines regarding relations between China and the US caused significant Stock fluctuations. In aggregate, Stocks ended the week lower by roughly 30 points, as measured by the S&P 500. A big chuck of these losses came on Friday, caused by weak economic data from China and Europe, inciting fears of a global economic slowdown. As far as developments between China and the US, China has agreed to lower tariffs on US auto imports from 40% to 15% for the next 90 days.

In economic news, the Consumer Price Index report, which measures inflation on the consumer level, showed that overall headline inflation dropped from 2.5% to 2.2%. When looking deeper into the numbers, this was all due to the recent drop in oil prices. When stripping out the volatile food and energy prices, the core reading showed that inflation actually rose from 2.1% to 2.2%. Overall, inflation remains relatively tame and in line with the Fed's target. Next week the Fed's favorite measure of inflation, Personal Consumption Expenditures (PCE) will be released. This will be an important report to follow. A surprise move higher in inflation can cause rates to move higher.

Inflation is the arch-enemy of Bonds and interest rates. Why? Inflation erodes the value of a Bonds fixed return. Meaning, the fixed amount of money you receive in interest from a Bond can buy less if the cost of goods goes up. For that reason, interest rates have to rise in a higher inflation environment to compensate the investor.

The Fed's 2 day meeting will begin on Tuesday of next week, with a statement and decision on hiking interest rates to follow on Wednesday. There will also be a press conference held by Fed Chair, Jerome Powell, after the statement. The market is estimating that there is a 78% probability that the Fed will hike, but it's almost certain that they will. This will curb inflation further. It will also normalize the Fed Funds Rate more and give the Fed more bullets in their chamber, should the US go into recession. If the US were to fall into a recession, the Fed will be able to cut interest rates to stimulate the economy. The catch 22 is that if the Fed hikes interest rates too much, they could hike the US into a recession. The statement and press conference to follow the Fed's decision will be important and can impact the markets, depending on their stance on inflation, the economy, and most importantly, future hike plans for 2019.

The European Central Bank announced that they will end their asset purchases program at the end of December, cutting their purchases from 15B Euros in Bonds per month to zero. They will, however, continue to reinvest the proceeds from maturing Bonds for an extended period of time…sound familiar? This is exactly what the Fed did after Quantitative Easing. After being an outright buyer, the Fed continued to purchase roughly $50B/month before beginning to taper reinvestments in October 2017, ending their purchases altogether this past October. As you remember, rates moved higher following the stop in purchases. Because the global economy is so interconnected, we have to be mindful that these moves by the ECB could pressures global rates higher. Even though the ECB will continue to buy Bonds through reinvestments, it will be a reduction.

Mortgage Application data improved once again this week, due to another decline in rates the previous week. Applications to purchase a home are now up 3.6% year over year, while Refinances are down 34%, which is an improvement from the 40% a few weeks ago. Interest rates were about ¾% higher than they were last year, which is down from 1% last month. It's a positive sign to see the purchase market remain strong, even with higher rates and a housing market that is beginning to slow.

It's important to make the distinction between a slowing housing market and a depreciating housing market. The housing market is still strong and homes are still appreciating, albeit not at the levels they were previously. Think of driving down a highway – If you were going 80mph and you slow to 50mph, you are still moving forward, just at a slower pace. The media would lead you to believe that the housing market is falling apart, do not be fooled.

Economic Calendar - for the Week of December 17, 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
Dec 17	08:30	New York Empire State Manufacturing Index	Dec	NA	23.3
Dec 17	10:00	NAHB Housing Market Index	Dec	NA	60
Dec 17	16:00	Net Long-Term TIC Flows	Oct	NA	$30.8B
Dec 18	08:30	Building Permits	Nov	NA	1,263K
Dec 18	08:30	Housing Starts	Nov	NA	1,228K
Dec 19	07:00	MBA Mortgage Purchase Index	12/15	NA	NA
Dec 19	08:30	Current Account Balance	Qtr. 3	NA	-$101.5B
Dec 19	10:00	Existing Home Sales	Nov	NA	5.22M
Dec 19	10:30	Crude Oil Inventories	12/15	NA	NA
Dec 19	14:00	FOMC Rate Decision	Dec	NA	2.125%
Dec 20	08:30	Continuing Jobless Claims	12/15	NA	NA
Dec 20	08:30	Initial Jobless Claims	12/15	NA	NA

Dec 20	08:30	Philadelphia Fed Manufacturing Index	Dec	NA	12.9
Dec 20	10:00	Index of Leading Economic Indicators	Nov	NA	NA
Dec 20	10:30	Natural Gas Inventories	12/15	NA	NA
Dec 21	08:30	Durable Goods Orders excluding transportation	Nov	NA	0.1%
Dec 21	08:30	Durable Goods Orders	Nov	NA	-4.4%
Dec 21	08:30	Third Estimate for 3rd Qtr. GDP	Qtr. 3	NA	NA
Dec 21	08:30	Third Estimate for 3rd Qtr. GDP Deflator	Qtr. 3	NA	NA
Dec 21	08:30	PCE Prices	Nov	NA	NA
Dec 21	08:30	Core PCE Prices	Nov	NA	NA
Dec 21	08:30	Personal Income	Nov	NA	NA
Dec 21	08:30	Personal Spending	Nov	NA	NA

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

Mortgage Bonds have been trapped in a wide range between a dual floor of support, formed by the 100.914 Fibonacci Level and the 100-day Moving Average, and overhead resistance at the 200-day Moving Average. Essentially, there is a solid floor of support that will support prices from moving much lower. On the other hand, there is a ceiling of resistance that is very strong at the 200-day Moving Average that will likely keep a lid on prices and cap gains. When Bonds are in a wide range like this, price swings and fluctuations can occur. There is, however, more upside potential than downside risk. This can all change next week, depending on some of the data and mainly the Fed Statement and decision. Stay tuned. The chart below shows the current technical levels above and beneath where Bonds are trading.