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Weekly Newsletter

Provided to you by

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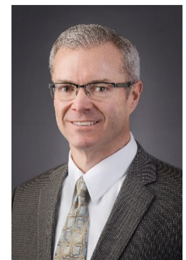


First Federal BANK of KANSAS CITY

Contents

Weekly Review

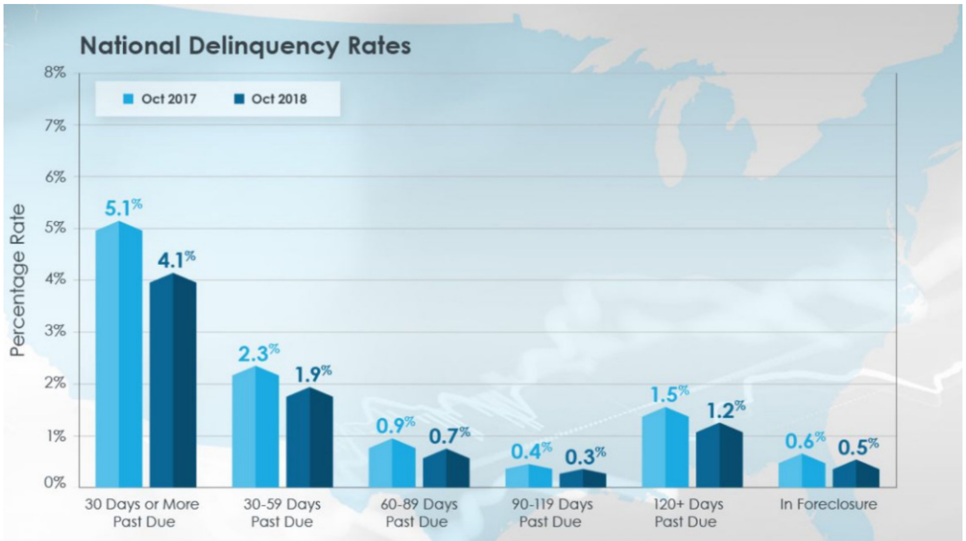
The stock market recorded its third consecutive weekly gain to push the major indexes out of bear market territory while the Treasuries and mortgage bond markets slipped marginally lower. So far, investors and economists have not shown much concern over the partial federal government shutdown that has entered into its third week.

Most of the week's gains in stocks were attributed to optimism surrounding trade negotiations between the U.S. and China. Three days of mid-level trade talks began last Monday in Beijing with the surprise attendance of China's Vice Premier Liu He, China's top economic official. Liu reportedly will be visiting Washington in late January to continue trade talks. China's Ministry of Commerce said in a statement that "Although no breakthrough was achieved, the talks laid the foundation for the resolution of issues of mutual concern," adding that the talks were "extensive, in-depth and detailed." President Trump also provided a boost to investor sentiment after tweeting trade talks were "going very well."

The week's economic reports were generally reassuring. Weekly Jobless Claims fell below the consensus forecast to 216,000 from the prior week's 233,000, and the NFIB Small Business Optimism Index fell less than expected in December to 104.4 from 104.8. Friday, the Labor Department reported inflation as measured by the Consumer Price Index (CPI) had fallen in line with forecasts at -0.1% for December, with the Core CPI (which excludes food and energy costs) increasing by 0.2% for the month and 2.2% versus a year ago.

Wednesday, the Fed released its minutes from its December FOMC policy meeting. The minutes revealed the path for U.S. monetary policy is "less clear" than before, and a contention the Fed can "afford to be patient" about future rate hikes. Thursday, Fed Chairman Jerome Powell pointed to low inflation as one factor that will allow the Fed to “be patient in raising interest rates further.” This rhetoric is currently fueling the fed funds futures market's belief that there won't be another interest rate hike in 2019.

In housing news, CoreLogic released its monthly Loan Performance Insights Report last Tuesday. The report shows 4.1% of mortgages were in some stage of delinquency nationally in October 2018, representing a 1 percentage point decline in the overall delinquency rate compared with October 2017, when it was 5.1%. This was the lowest for the month of October in at least 18 years.



As of October 2018, the foreclosure inventory rate, measuring the share of mortgages in some stage of the foreclosure process, was 0.5%, down 0.1 percentage point since October 2017. The rate for early-stage delinquencies – defined as 30 to 59 days past due – was 1.9% in October 2018, down from 2.3% in October 2017. The share of mortgages that were 60 to 89 days past due in October 2018 was 0.7%, down from 0.9% in October 2017. The serious delinquency rate – defined as 90 days or more past due, including loans in foreclosure, was 1.5% in October 2018, down from 1.9% in October 2017. Frank Martell, president and CEO of CoreLogic, remarked “Despite some regional spikes related to hurricane and fire impacted areas, overall delinquency rates are near or at historic lows.”

As for mortgages, the latest data from the Mortgage Bankers Association’s (MBA) weekly mortgage applications survey showed the number of mortgage applications decreased from the prior week. The MBA reported their overall seasonally adjusted Market Composite Index (application volume) increased 23.5% for the week ended January 4, 2019. The seasonally adjusted Purchase Index increased 17% from a week prior while the Refinance Index increased 35%.

Overall, the refinance portion of mortgage activity increased to 45.8% from 42.7% of total applications from the prior week. The adjustable-rate mortgage share of activity increased to 8.4% of total applications from 7.6% the previous week. According to the MBA, the average contract interest rate for 30-year fixed-rate mortgages with a conforming loan balance decreased to 4.74% from 4.84% with points increasing to 0.47 from 0.42 for 80 percent loan-to-value ratio (LTV) loans.

For the week, the FNMA 4.0% coupon bond lost 9.4 basis points to close at $101.969 while the 10-year Treasury yield increased 3.1 basis points to end at 2.699%. The Dow Jones Industrial Average gained 562.79 points to close at 23,995.95. The NASDAQ Composite Index added 232.62 points to close at 6,971.48. The S&P 500 Index advanced 64.32 points to close at 2,596.26. Year to date (2019) on a total return basis, the Dow Jones Industrial Average has added 2.87%, the NASDAQ Composite Index has gained 5.07%, and the S&P 500 Index has advanced 3.57%.

This past week, the national average 30-year mortgage rate rose to 4.57% from 4.54%; the 15-year mortgage rate increased to 4.14% from 4.11%; the 5/1 ARM mortgage rate rose to 4.42% from 4.40% while the FHA 30-year rate held steady at 4.17%. Jumbo 30-year rates increased to 4.34% from 4.32%.

Economic Calendar - for the Week of January 14, 2019

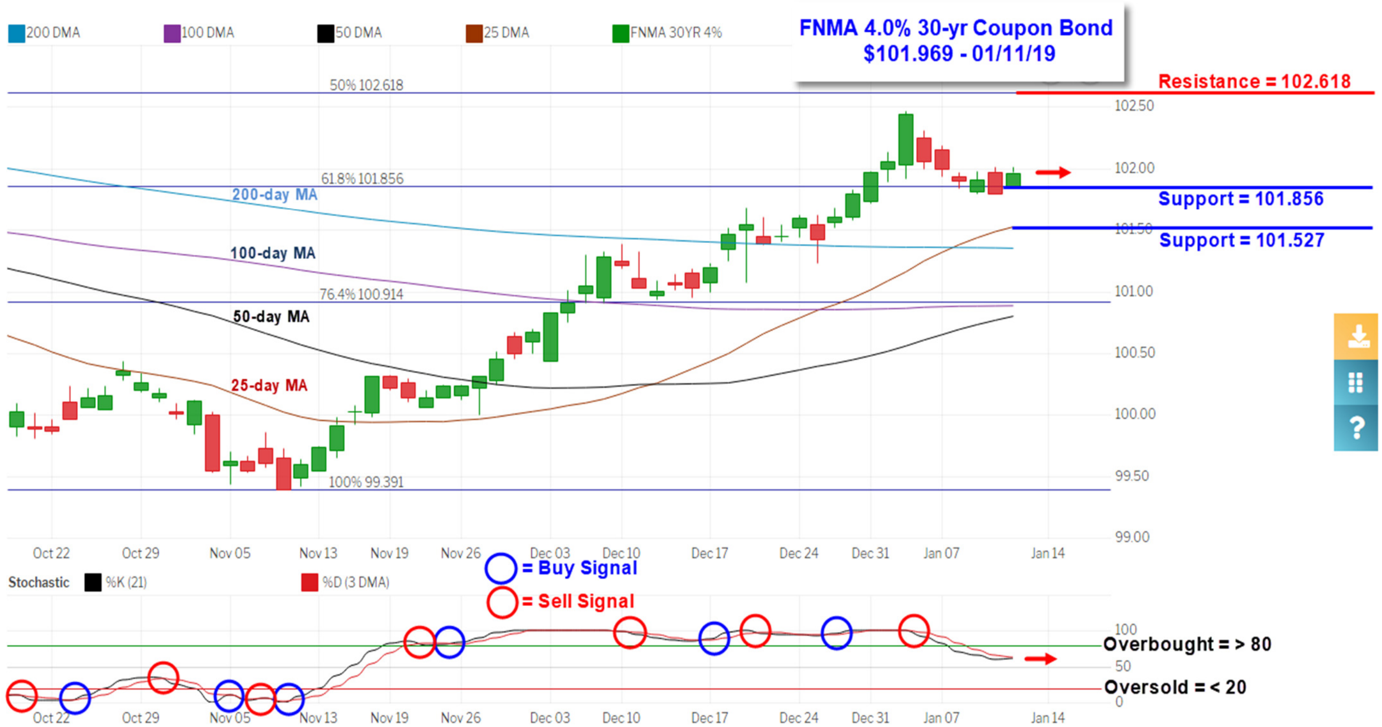
Economic reports having the greatest potential impact on the financial markets are highlighted in bold.

Date	Time ET	Event /Report /Statistic	For	Market Expects	Prior
Jan 15	**08:30**	**Producer Price Index (PPI)**	**Dec**	**-0.1%**	**0.1%**
Jan 15	**08:30**	**Core PPI**	**Dec**	**0.2%**	**0.3%**
Jan 15	**08:30**	**New York Empire State Manufacturing Index**	**Jan**	**12.2**	**10.9**
Jan 16	07:00	MBA Mortgage Applications Index	01/12	NA	23.5%
Jan 16	08:30	Import Prices excluding oil	Dec	NA	-0.3%
Jan 16	08:30	Export Prices excluding agriculture	Dec	NA	-1.0%
Jan 16	10:00	NAHB Housing Market Index	Jan	56	56
Jan 16	**10:30**	**EIA Crude Oil Inventories**	**01/12**	**NA**	**-1.7M**
Jan 16	**14:00**	**Fed's Beige Book**	**Jan**	**NA**	**NA**
Jan 16	16:00	Net Long-Term TIC Flows	Nov	NA	$31.3B
Jan 17	**08:30**	**Initial Jobless Claims**	**01/12**	**221K**	**216K**
Jan 17	08:30	Continuing Jobless Claims	01/05	NA	1722K
Jan 17	**08:30**	**Philadelphia Fed Manufacturing Index**	**Jan**	**10.5**	**9.4**
Jan 18	09:15	Capacity Utilization	Dec	78.5%	78.5%
Jan 18	09:15	Industrial Production	Dec	0.2%	0.6%
Jan 18	**10:00**	**Prelim. Univ. of Michigan Consumer Sentiment**	**Jan**	**96.0**	**98.3**

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

The FNMA 30-year 4.0% coupon bond ($101.969, -9.4 bp) traded within a narrower 39.1 basis point range between a weekly intraday high of $102.188 on Monday and a weekly intraday low of 101.797 on Wednesday and Thursday before closing the week at $101.969 on Friday.

Mortgage bond prices moved lower to test technical support at the 61.8% Fibonacci retracement level ($101.856) and this level has held with Friday’s close. The bond is no longer “overbought” so we could see bond prices lift for a bounce higher off of support, especially if the stock market pauses its recent advance or struggles this week. The major stock indexes are currently slightly overbought and we could see some weakness in stocks this week for the benefit of the bond market. Look for bonds to trade between support and resistance with mortgage rates holding steady or moving slightly lower.



FNMA 4.0% 30-yr Coupon Bond
$101.969 - 01/11/19
200 DMA
100 DMA
50 DMA
25 DMA
FNMA 30YR 4%
Resistance = 102.618
Support = 101.856
Support = 101.527
50% 102.618
61.8% 101.856
76.4% 100.914
100% 99.391
200-day MA
100-day MA
50-day MA
25-day MA
= Buy Signal
= Sell Signal
Stochastic
%K (21)
%D (3 DMA)
Overbought = > 80
Oversold = < 20