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Road Signs

Weekly Newsletter

Provided to you by **Lee McLain**

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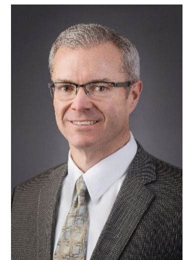

First Federal Bank of Kansas City

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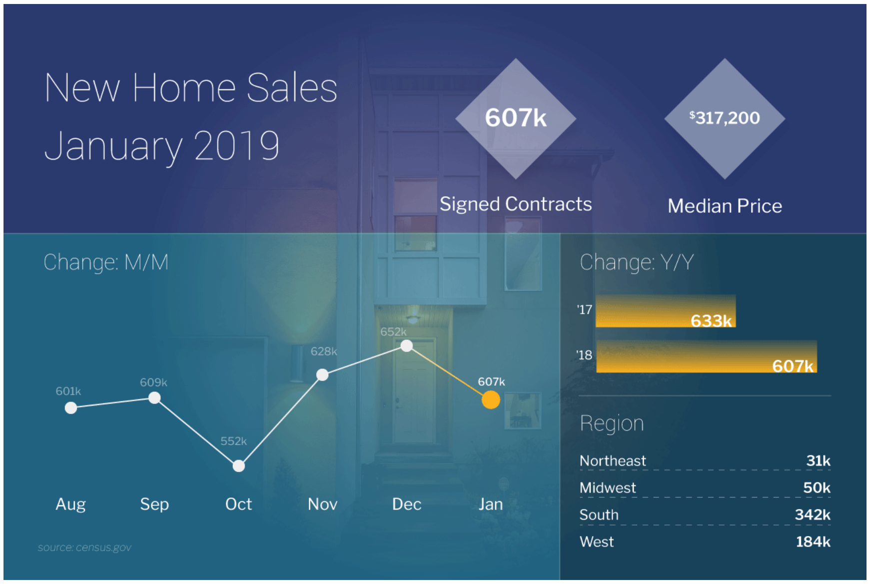
Weekly Review

Investors stepped into the stock market to buy the recent dip propelling the major market indexes higher on the week. In fact, the S&P 500 gained 2.9% this week to establish a new high for 2019 with a close on Friday (2,822) at its highest level since last October 10 and above strong resistance located at 2,800. Meanwhile, a combination of U.S. - China trade concerns, mixed domestic economic news, and weaker than expected inflation data drove the yield on the benchmark 10-year Treasury note below 2.60% to 2.591% on Friday, its lowest level since the beginning of January. Weaker than forecast economic data during the week supported the notion the Federal Reserve will stay on the sidelines and not raise short-term interest rates which helped both the stock and bond markets this past week.

There were heightened expectations early last week that the U.S. and China would soon reach a trade agreement after comments made by the head of China's central bank at a news conference, in which he vowed China would not devalue its currency to improve exports or to use it as a weapon in trade disputes. This soon faded though after Bloomberg reported on Thursday that President Trump and China's President Xi Jinping were unlikely to meet until at least late April if they met at all.
The week's domestic economic data was mixed with February Industrial Production below estimates, manufacturing output declining for the second consecutive month, and the New York Empire State Manufacturing Index declining more than expected. However, Durable Goods Orders

jumped in January by the most in six months while Retail Sales and the University of Michigan's preliminary March Consumer Sentiment Index both rebounded more than expected.

In housing, the Census Bureau and the Department of Housing and Urban Development jointly reported New Home Sales fell 6.9% month-over-month in January to a seasonally adjusted annual rate of 607,000. This was below the consensus estimate of 623,000, but December's initial reading of 621,000 was upwardly revised to 652,000. On a year-over-year basis, New Home Sales were down 4.1%.



The median sales price declined 3.8% year-over-year to $317,200 while the average sales price fell 1.2% to $373,100.

New Home Sales were down in all regions in January, with the exception of the West. Regionally, sales were down 11.4% in the Northeast; 28.6% lower in the Midwest; down 15.1% in the South; but were 27.8% higher in the West. The inventory of new homes for sale increased to a 6.6 month's supply at the rate of January sales from 6.3 months in December.

Elsewhere, mortgage data from the Mortgage Bankers Association (MBA) showed the number of mortgage applications increased from the prior week. The MBA reported their overall seasonally adjusted Market Composite Index (application volume) increased 2.3% for the week ended March 8, 2019. The seasonally adjusted Purchase Index increased 4% from a week prior while the Refinance Index decreased 0.2%.

Overall, the refinance portion of mortgage activity decreased to 38.6% from 40.0% of total applications from the prior week. The adjustable-rate mortgage share of activity declined to 7.2% of total applications from 7.4%. According to the MBA, the average contract interest rate for 30-year fixed-rate mortgages with a conforming loan balance decreased to 4.64% from 4.67% with points increasing to 0.47 from 0.44 for 80 percent loan-to-value ratio (LTV) loans.

For the week, the FNMA 4.0% coupon bond gained 10.9 basis points to close at $102.359 while the 10-year Treasury yield decreased 3.9 basis points to end at 2.591%. The Dow Jones Industrial Average gained 398.63 points to close at 25,848.87. The NASDAQ Composite Index added 280.39 points to close at 7,688.53. The S&P 500 Index rose 79.41 points to close at 2,822.48. Year to date (2019) on a total return basis, the Dow Jones Industrial Average has added 10.81%, the NASDAQ Composite Index has gained 15.87%, and the S&P 500 Index has advanced 12.59%.

This past week, the national average 30-year mortgage rate dropped to 4.40% from 4.45%; the 15-year mortgage rate decreased to 3.98% from 4.04%; the 5/1 ARM mortgage rate decreased to 4.26% from 4.34%; and the FHA 30-year rate decreased to 4.07% from 4.12%. Jumbo 30-year rates decreased to 4.20% from 4.25%.

Economic Calendar - for the Week of March 18, 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
Mar 18	09:00	NAHB Housing Market Index	Mar	63	62
Mar 19	10:00	Factory Orders	Jan	0.2%	0.1%
Mar 20	07:00	MBA Mortgage Applications Index	03/16	NA	2.3%
Mar 20	**10:30**	**EIA Crude Oil Inventories**	**03/16**	**NA**	**-3.9M**
Mar 20	**14:00**	**FOMC Rate Decision**	**Mar**	**2.375%**	**2.375%**
Mar 20	**14:30**	**Fed Chair Press Conference**	**Mar**	**NA**	**NA**
Mar 21	**08:30**	**Initial Jobless Claims**	**03/16**	**223,000**	**229,000**
Mar 21	08:30	Continuing Jobless Claims	03/09	NA	1,776K
Mar 21	**08:30**	**Philadelphia Fed Manufacturing Index**	**Mar**	**6.0**	**-4.1**
Mar 21	08:30	Current Account Balance	Q4	0.2%	-$124.8B
Mar 21	10:00	Index of Leading Economic Indicators	Feb	NA	-0.1%
Mar 22	**10:00**	**Existing Home Sales**	**Feb**	**NA**	**4.94M**
Mar 22	10:00	Wholesale Inventories	Jan	-$227.0B	1.1%
Mar 22	14:00	Treasury Budget	Feb	63	-$215.2B

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

The FNMA 30-year 4.0% coupon bond ($102.359, +10.9) traded within a narrower 26.6 basis point range between a weekly intraday high of $102.391 on Tuesday and a weekly intraday low of 102.125 also on Tuesday before closing the week at $102.359 on Friday. Mortgage bonds reversed direction higher on Tuesday, traded lower on Wednesday and Thursday, then bounced back on Friday to reach just below the weekly high made on Tuesday. This resulted in a weak buy signal on Friday coupled with a sideways direction for the week not far from overhead technical resistance. The bond is currently “overbought” and subject to a subsequent move lower, but we could see a continuation of a sideways trading pattern between support and resistance levels with a net effect of fairly stable to very slightly lower mortgage rates for the week.