MBS Highway™

Your Trusted Source for Mortgage Market Intelligence

Road Signs

Weekly Newsletter

Provided to you by **Lee McLain**

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Weekly Review

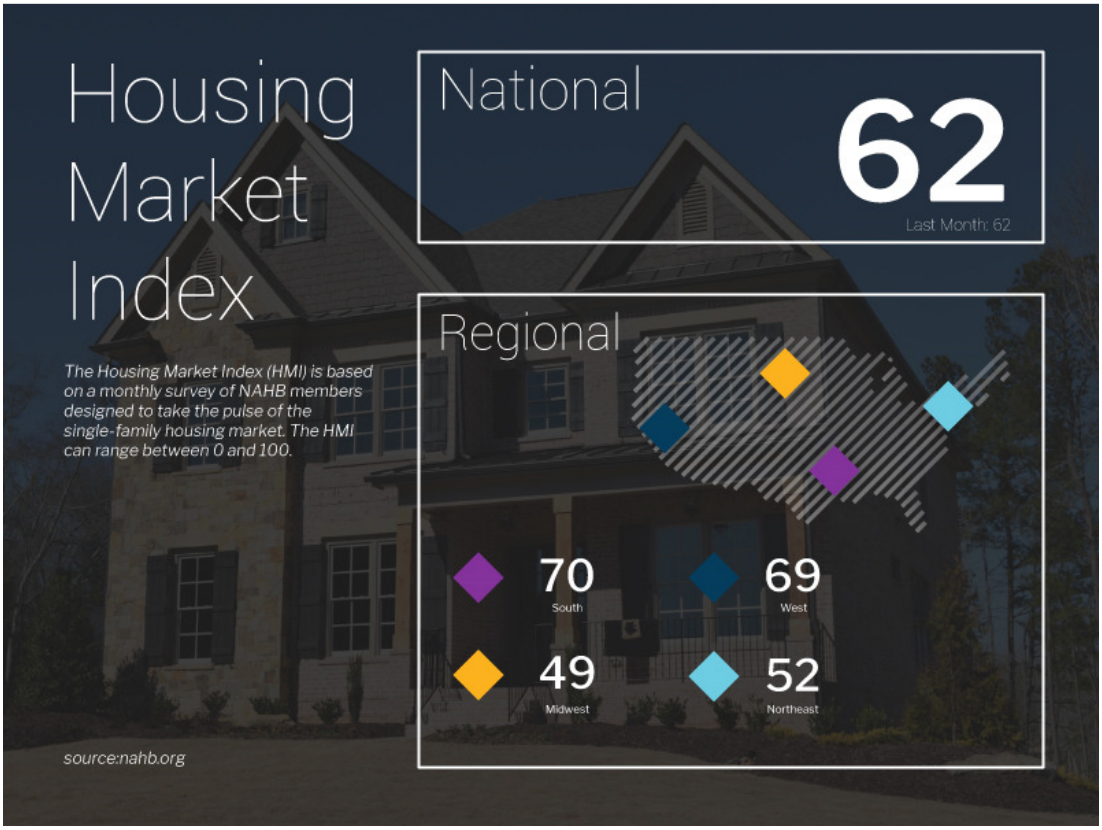
The big news of the week was the Fed's two-day meeting and Fed Chair, Jerome Powell's, press conference. The Fed announced that there will not be any more rate hikes this year. Additionally, they downgraded their outlook on the economy and expect only 2.1% growth in 2019...a big drop from the 3% we saw in 2018.

On the Fed's Balance Sheet - The big headline was that the Fed is going to stop Treasuries and MBS from running off their balance sheet. Currently there is a Maximum of $50B per month that rolls off each month from their proceeds of maturing Treasuries and principle payments on Mortgages.

The Fed is still going allow Mortgage Bonds to run off. They are going to take the proceeds from MBS and reinvest them into Treasuries. But they are going to be reinvested in a range of Treasuries, not just longer term. They said it will mimic their current holdings...and they are holding mostly shorter-term maturities. This means the Fed may reinvest mostly in shorter term maturities. As Treasuries move higher and yields move lower, there is a natural pull with Mortgage Bonds. This happens because as the spread widens, with Mortgage Bonds offering a higher yield, investors may start to contemplate if it's worth taking a slightly higher risk for a better return. Because of this, Mortgage Bonds will move higher and interest rates may decrease a bit...but it's not going to be the help we hoped for. There is not going to be direct buying by the Fed back in MBS. In housing news, The NAHB (National Association of Home Builders) released their Housing Market Index, which is a real-time read on builder confidence for March. This week's report came in at 62, which is a strong figure and unchanged from the February reading.

Looking at the three components - Current Sales increased 2 points to 68 and Future Sales increased 3 points to 71. Buyer Traffic fell 4 points to 44. Any reading over 50 signals expansion, so buyer traffic is the only one that is slightly weak.

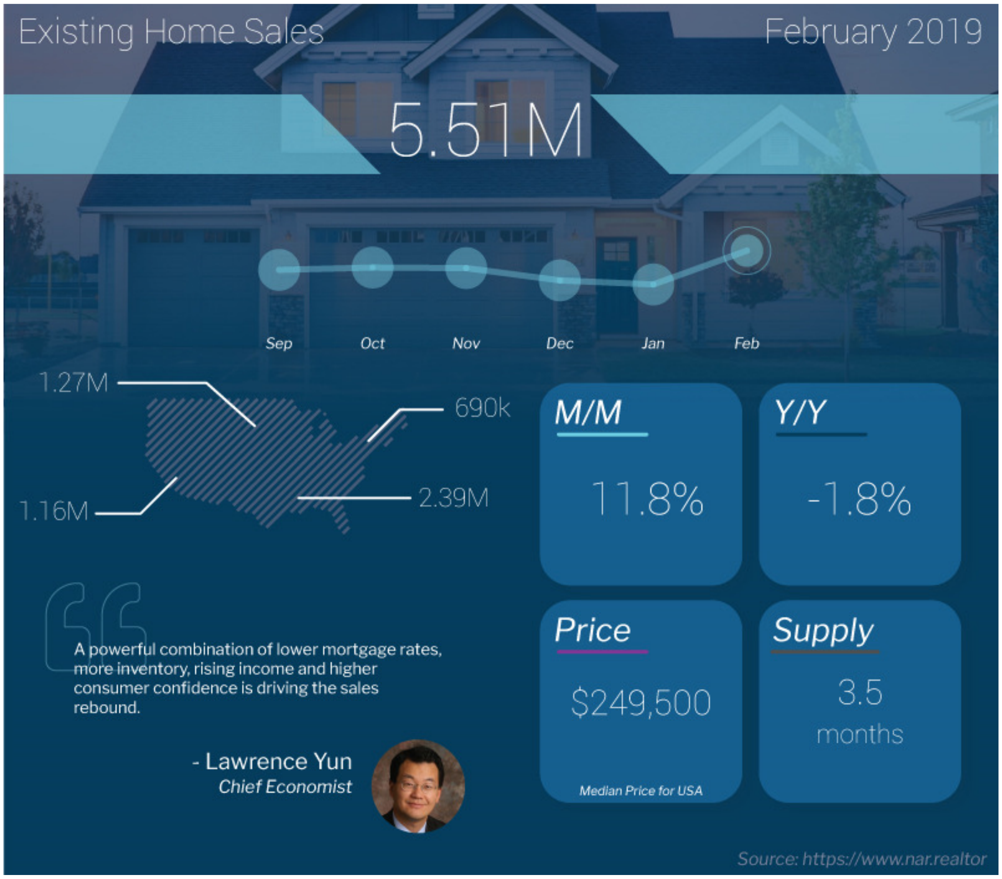
“Builders report the market is stabilizing following the slowdown at the end of 2018, and they anticipate a solid spring home buying season,” said NAHB Chairman Greg Ugalde.



Existing Home Sales jumped nearly 12% in February, which is much higher than the 3.2% expected. Sales are down 1.8% year over year, but we expect strength in the coming months heading into the spring home buying season. The National Association of Realtors (NAR) attributed the large gain in February to lower rates, more inventory, rising incomes and higher consumer confidence.

The Median Home Price was reported at $249,500, up 3.6% year over year. Total inventory at the end of February increased to 1.63 million, up 3.2% from last year. At the current pace of sales, there is a 3.5-month supply, down from 3.9 in January.

According to the NAR, a typical homeowner accumulated an estimated $8,700 in housing equity through appreciation over the past 12 months and $21,300 over the past 24 months. And that doesn't include amortization.



Economic Calendar - for the Week of March 25, 2019

Week of March 25 - March 29

Date	ET	Release	For	Actual	Briefing.com Forecast	Briefing.com Consensus	Prior	Revised From
Mar 26	08:00	S&P Case-Shiller Home Price Index	Jan		4.0%	4.0%	4.2%	
Mar 26	08:30	Housing Starts	Feb		1200K	1210K	1230K	
Mar 26	08:30	Building Permits	Feb		1310K	1308K	1345K	
Mar 26	09:00	FHFA Housing Price Index	Jan		0.2%	0.3%	0.3%	
Mar 26	10:00	Consumer Confidence	Mar		131.5	132.0	131.4	
Mar 27	07:00	MBA Mortgage Applications Index	03/23		NA	NA	1.6%	
Mar 27	08:30	Trade Balance	Jan		-$60.0B	-$57.5B	-$59.8B	
Mar 27	08:30	Current Account Balance	Q4		NA	-$126.6B	-$124.8B	
Mar 27	10:30	EIA Crude Oil Inventories	03/23		NA	NA	-9.6M	
Mar 28	08:30	Initial Claims	03/23		215K	220K	221K	
Mar 28	08:30	Continuing Claims	03/16		NA	NA	1750K	
Mar 28	08:30	GDP - Third Estimate	Q4		2.5%	2.5%	2.6%	

Date	ET	Release	For	Actual	Briefing.com Forecast	Briefing.com Consensus	Prior	Revised From
Mar 28	08:30	GDP Deflator - Third Estimate	Q4		1.8%	1.8%	1.8%	
Mar 28	10:00	Pending Home Sales	Feb		0.7%	0.5%	4.6%	
Mar 28	10:30	EIA Natural Gas Inventories	03/23		NA	NA	-47 bcf	
Mar 29	08:30	Personal Income	Feb		0.2%	0.3%	-0.1%	
Mar 29	08:30	Personal Spending	Feb		NA	NA	NA	
Mar 29	08:30	PCE Price Index	Feb		NA	NA	NA	
Mar 29	08:30	Core PCE Price Index	Feb		NA	NA	NA	
Mar 29	08:30	Personal Spending	Jan		0.2%	0.3%	-0.5%	
Mar 29	08:30	Core PCE Price Index	Jan		0.2%	0.2%	0.2%	
Mar 29	10:00	New Home Sales	Feb		610K	618K	607K	
Mar 29	10:00	Univ. of Michigan Consumer Sentiment - Final	Mar		97.6	97.8	97.8	

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

Mortgage Bonds moved significantly higher following the Fed's announcement of the changes coming to the way they handle their balance sheet. Bonds broke above an important technical celling at 102.618, a level that has not been broken since February 2018. Bonds now find themselves in a new range, within 102.618 now acting as support, the next ceiling is all the way up at 102.379, so there is plenty of room for Bonds to improve and move higher.

Looking at the stochastics chart, you can see Bonds have been in an overbought territory for the past two weeks. Should Bonds falter, a negative crossover could form, which usually accelerates the move to the downside. A lot will depend on the Stock market and if it can rebound from the losses suffered last week.


200 DMA
100 DMA
50 DMA
25 DMA
FNMA 30YR 4%
38.2% 103.379
R1 103.379
50% 102.618
S1 102.618
S2 102.2031
76.4% 100.914
103.00
102.50
102.00
101.50
101.00
100.50
100.00
Jan
Feb
Mar
Stochastic
%K (21)
%D (3 DMA)
100
50
0
Jan
Feb
Mar