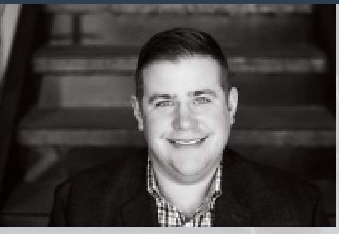


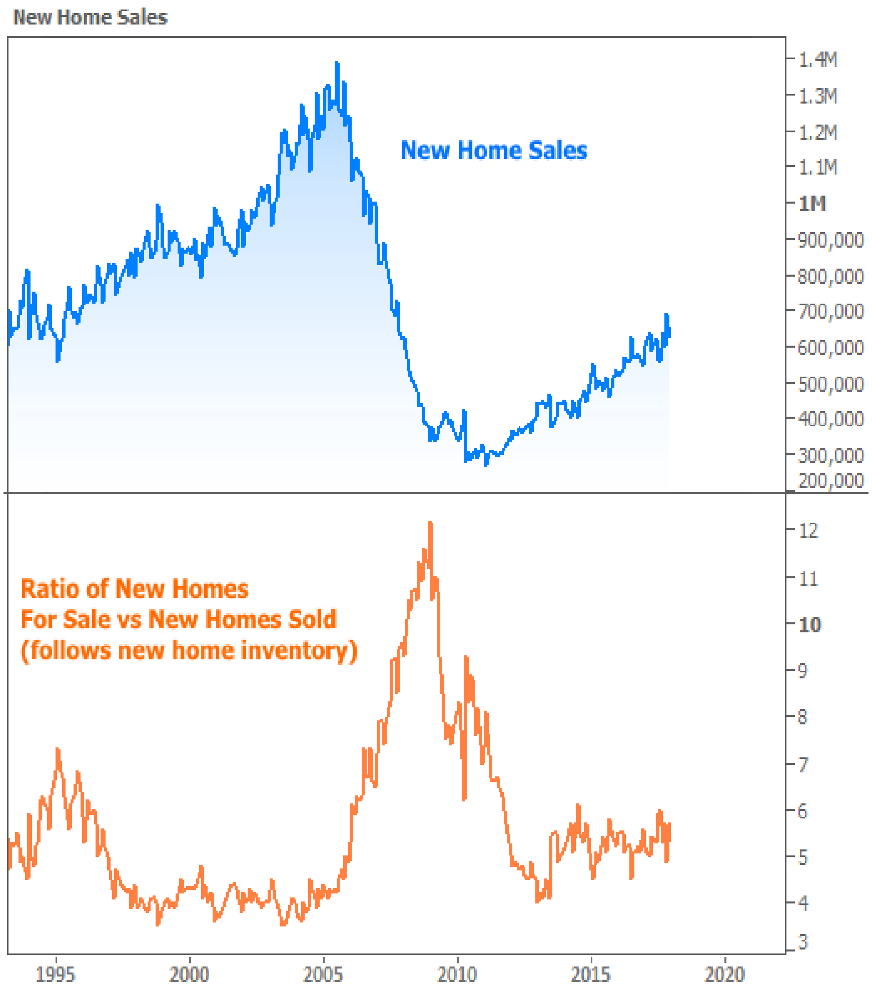
Michael Baker
Senior Mortgage Loan Officer, Fountain Mortgage
Individual NMLS: 259076 Company NMLS: 2579
8340 Mission Rd, Ste 240 Prairie Village, KS 66206

Office: 913-735-8455
Mobile: 913-735-5363
mbaker@fountainmortgage.com
View My Website

Inventory About to Come Back; Dollar Killing Rates?

Seemingly overnight, financial markets are abuzz over fluctuations in the dollar and the alleged impact that's having on interest rates. We'll discuss those claims in detail, but first, let's dig into this week's **home sales data.**

Both of the key reports released this week showed sales falling from last month's levels, but still holding in good territory in the bigger picture. Existing Home Sales ebbed to an annual pace of 5.57 million units from last month's 5.78 million, and New Home Sales fell to a 625k annual pace from 689k last month. While those sales figures are fairly **boring** (in a good way), the accompanying inventory numbers are more interesting.



National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.25%	-0.03	0.00
15 Yr. Fixed	6.68%	-0.07	0.00
30 Yr. FHA	6.64%	-0.06	0.00
30 Yr. Jumbo	7.45%	-0.03	0.00
5/1 ARM	7.32%	-0.03	0.00
Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	0.00

Rates as of: 5/6

Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.08	-0.01
MBS GNMA 6.0	101.02	0.00
10 YR Treasury	4.4838	-0.0300
30 YR Treasury	4.6389	-0.0322

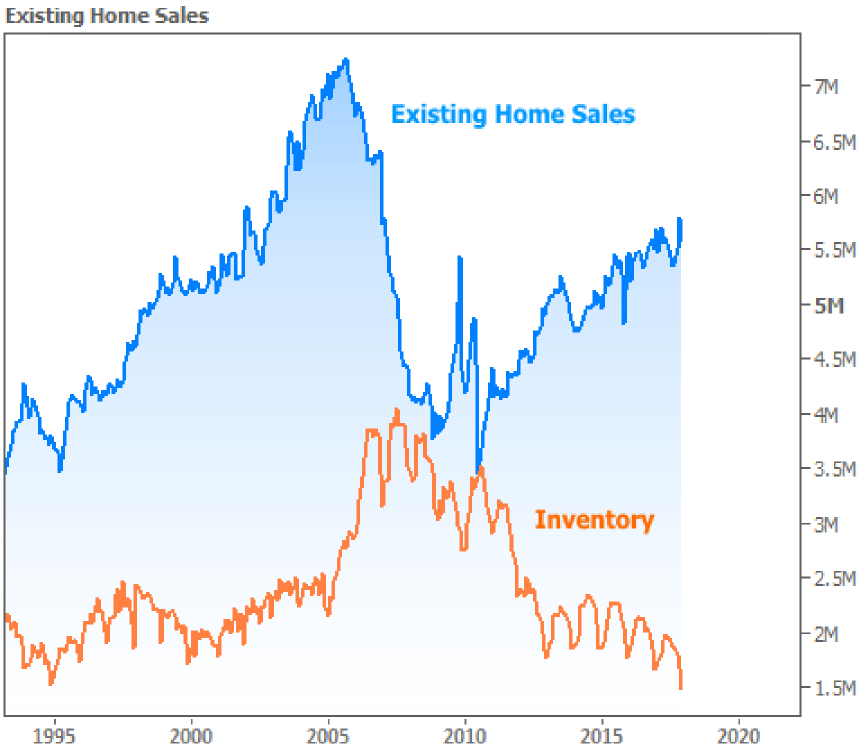
Pricing as of: 5/6 1:52PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

As the chart suggests, there was a lot of **new home inventory** to work through following the financial crisis. Once that backlog was cleared, the inventory ratio stabilized and builders have been ramping up production accordingly.

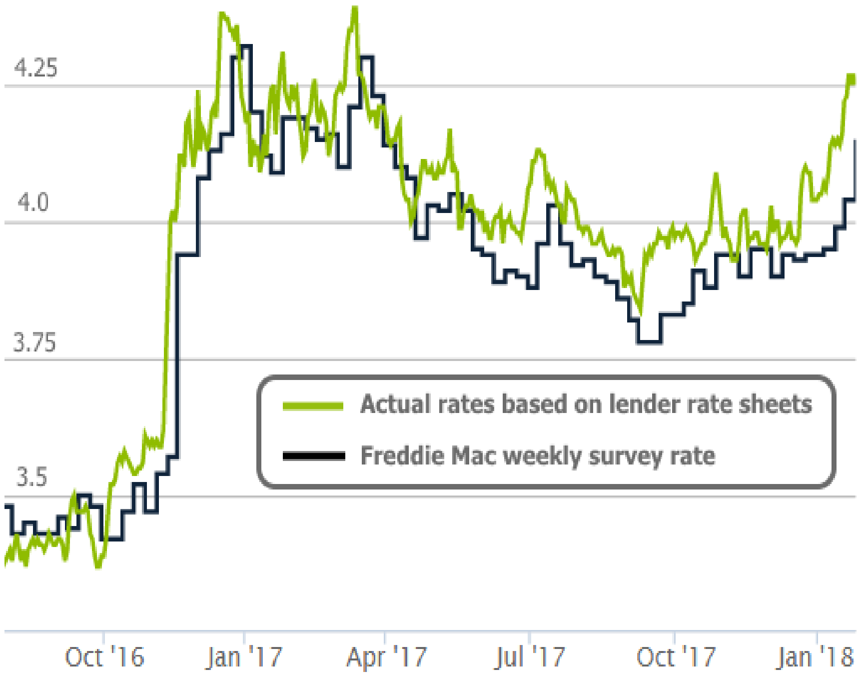
The situation in Existing Home Sales has been a **bigger deal**. While "inventory issues" have been a common refrain in the housing market over the past few years, this week's data showed a drop to a new record low.



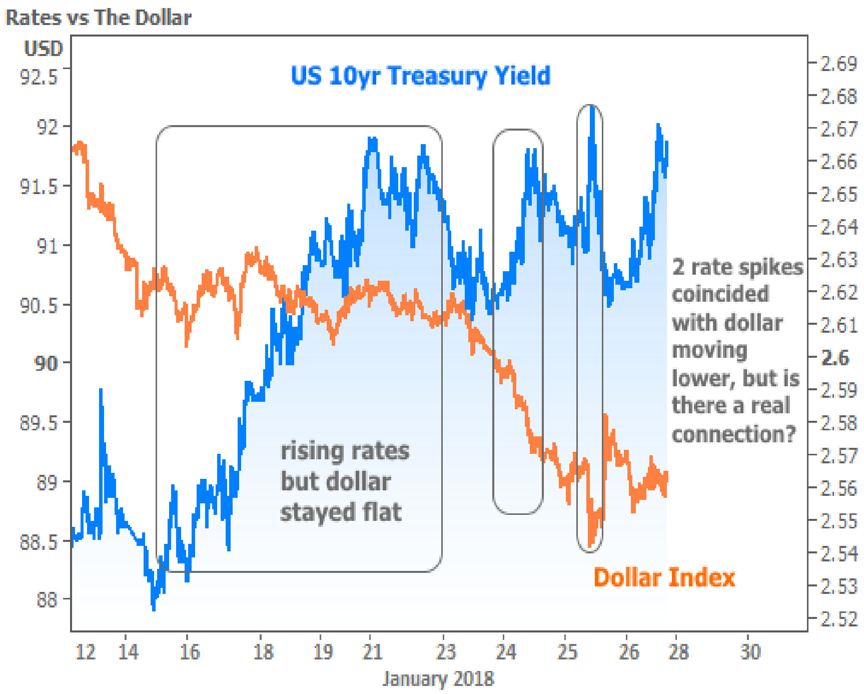
Low inventory is typically characterized as a **"bad thing"** that holds back home sales growth. While that's hard to argue, it's more of a backward-looking assessment. The last time inventories were near current levels was at the end of 1994, just before Existing Sales began the run that would ultimately take them over 5 million units for the first time. In that sense, 1994's low inventory was definitely not a bad thing.

There is plenty of uncertainty as to whether this instance of low inventory will give way to similar strength in sales over the long run, but in the short term, we know **inventory is about to move higher**. The reason is simple: that's just what inventory does heading into a new year. In the chart above, note the successive bounces along the lows during the past 5 years. Each of those bounces occurred in Dec/Jan, marking the turning point for a surge into the summer months.

If there's a dark cloud on the inventory horizon, it's the **recent rise in mortgage rates**. Not only does this dissuade some homeowners from putting their home up for sale, it also hurts affordability on the demand side of the equation. Mortgage rates have quickly moved to the highest levels in more than 9 months. While major media outlets have begun to cover this, the magnitude has been somewhat under-reported due to reliance on Freddie Mac's weekly rate survey (which is accurate over time, but lags on a day-to-day basis).



With **sharp declines** in the **dollar** happening at the same time, more than a few market participants are **mistakenly** pinning rate trends on the direction of the dollar. In their defense, there appeared to be some evidence for that earlier this week. Had they looked back a few weeks, they'd see most of the recent rate spike occurred while the dollar was trading fairly flat.

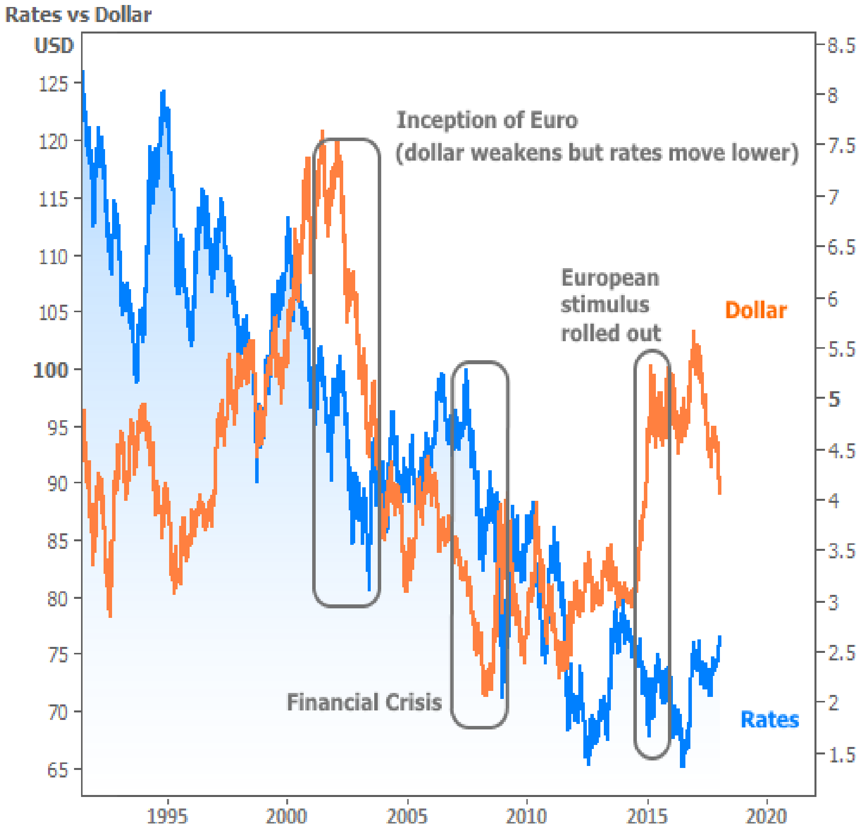


You may well encounter news or conversation that continues making a case for a weak dollar and higher rates, so let's break down what's really going on here.

Both rates and currencies move for a multitude of factors. **Some** of those factors are **shared**, though **many** are not. It's when these shared factors are in play that it might **seem** like the dollar is affecting rates, or vice versa. Incidentally, I'm **NOT** saying the dollar has **no** effect on rates. It does have SOME--just not nearly as much as some of this week's financial news suggested.

Reporters and traders were understandably tuned in to the dollar given Trump's comments on NAFTA and Treasury Secretary Mnuchin's comments on the dollar itself (which markets took to mean the administration might like the dollar to weaken a bit). In the bigger picture, however, foreign currency fluctuations are a **far bigger deal**.

Case in point, the inception of the Euro currency prompted the **biggest drop** in the dollar since the early 80's. If you believe this week's news, that should have pushed rates higher. Instead, they were in the midst of their best move lower since the early 80's! The financial crisis provided a different example of this week's news being misguided. There too, the dollar weakened even as rates were falling.



To put the issue to bed, we can look at a close-up view of the end of this week. The Euro moved higher following European Central Bank (ECB) President Mario Draghi's comments at a press conference on Thursday morning. Those same comments **hurt interest rates** for different reasons (investors inferred Draghi would be more willing to stop buying bonds this year because he was saying the economy was doing very well).

Just after that, interest rates managed to find their footing **all on their own**. The Euro remained elevated and the dollar (not pictured) remained weaker. It wasn't until Trump said Mnuchin's dollar comments earlier in the week were taken out of context that the dollar surged and the Euro fell.

If there was any doubt about that being a fluke, rates rose quickly on Friday while the dollar barely budged. Bottom line: they each have their own motivations. Sometimes they overlap, but most of the time, they don't. It just made **convenient news** this week.

Subscribe to my newsletter online at: http://housingnewsletters.com/michaelbaker

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Jan 24				
10:00AM	Dec Exist. home sales % chg (%)	-3.6	-2.2	5.6
1:00PM	5-Yr Note Auction (bl)	34		
Thursday, Jan 25				
8:30AM	w/e Jobless Claims (k)	233	235	220
10:00AM	Dec New home sales chg mm (%)	-9.3	-7.9	17.5
1:00PM	7-Yr Note Auction (bl)	28		
Friday, Jan 26				
8:30AM	Q4 GDP Advance (%)	2.6	3.0	3.2
8:30AM	Dec Durable goods (%)	2.9	0.8	1.3
8:30AM	Dec Nondefense ex-air (%)	-0.3	0.5	-0.2
Monday, Jan 29				
8:30AM	Dec PCE (y/y) (%)	+1.7		1.8

Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

Date	Event	Actual	Forecast	Prior
8:30AM	Dec Core PCE (y/y) (%)	+1.5	1.5	1.5
8:30AM	Dec Personal Income (%)	+0.4	0.3	0.3
8:30AM	Dec Consumer Spending (Consumption) (%)	+0.4	0.4	0.6
Tuesday, Jan 30				
9:00AM	Nov CaseShiller 20 mm nsa (%)	+0.2		0.2
10:00AM	Jan Consumer confidence	125.4	123.1	122.1
Wednesday, Jan 31				
7:00AM	w/e Mortgage Market Index	413.4		424.4
9:45AM	Jan Chicago PMI	65.7	64.1	67.8
10:00AM	Dec Pending Sales Index	110.1		109.5
2:00PM	N/A FOMC rate decision (%)	1.250 - 1.500	1.375	1.375
Thursday, Feb 01				
8:30AM	Q4 Labor Costs Preliminary (%)	2.0	0.8	-0.2
8:30AM	Q4 Productivity Preliminary (%)	-0.1	1.0	3.0
8:30AM	w/e Jobless Claims (k)	230	230	233
10:00AM	Jan ISM Manufacturing PMI	59.1	58.8	59.7
Friday, Feb 02				
8:30AM	Jan Non-farm payrolls (k)	200	180	148
8:30AM	Jan Unemployment rate mm (%)	4.1	4.1	4.1

About Michael

If you are thinking about buying or refinancing a home in the Kansas City area, you've probably faced the dilemma of hiring the right Loan Officer to handle your mortgage. You may be concerned about working with someone that doesn't know the area, or who doesn't listen to you. Maybe you're worried about a loan officer who is more concerned with a commission than making sure you're properly taken care of.

Great news - I can help!

IF YOU ARE THINKING OF BUYING A HOME... I would love to share with you the mortgage loan products that are available to you, and also talk about what homes might be coming onto the market very soon. As a Kansas City resident who also went to college just down the street in Lawrence, I'm not just your loan officer but also your neighbor. I'd love to talk to you about my knowledge not only about the Kansas City market, and what neighborhoods would be perfect to you but also help you truly understand the landscape of the mortgage industry today, and introduce you to great Real Estate Agents that are ready to go to work for you and find you the perfect home. I'll help guide you through appraisals, inspections, title searches, and finally closing.

IF YOU ARE A REALTOR LOOKING FOR A REFERRAL PARTNER... I would love to sit down with you over a cup of coffee and show you ways to generate leads for your business and help you grow your clientele through some easy processes that NO other Real Estate Agents are doing. I am a growing Social Media guru that can show you my tips and tricks on how I've doubled my Twitter base in just a month!

If it sounds like I can help you, please contact me directly through Linked In, email me at mbaker@affinityhomeloan.com or call/text me at 913-735-5363. If you're not yet ready for a conversation, but you'd like to learn more about me and how I can help you or about the mortgage process in general, including great blog posts to send out to your clients, check out my website at http://www.michaelbakerhomeloans.com.

Michael Baker