



Mid Valley Financial

Mortgage Banker, Since 1985

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Let's Talk Turkey: Do US Markets Care?

Turkey is the 17th biggest economy in the world in terms of GDP. That's neck and neck with the Netherlands, roughly 20% bigger than Saudi Arabia (the next closest country) and 4 times bigger than Greece. So the fact that Turkey is in the throes of a **debt crisis** is making news.

But is Turkey moving domestic markets or are investors just **gawking** at the imploding Lira (Turkey's currency)?

I mention Greece because it was the last country outside the top 10 biggest economies to unexpectedly cause a stir in US markets. Granted, that was truly a big deal because Greece is part of the Eurozone (for a time, there were concerns the entire EU could unravel). But the Greek debt crisis **reminds** us not to be too cynical when it comes to the potential impact on US markets from drama that seems a world away.

Cynicism is fashionable (and usually a good policy when it comes to watching financial markets), but Turkey definitely had an impact this week. We know this because we could see US Treasury yields (aka "rates") gearing up to respond to Friday's big inflation report (CPI, the consumer price index) before making an unexpected move that **could only be explained** by plummeting Turkish Lira.

A day earlier, Thursday's PPI (producer price index) ticked down just slightly. PPI isn't as highly regarded as a market mover for rates. Investors understand it has been trending higher after bouncing with oil prices, and should eventually level-off. Still, PPI is now high enough to suggest some of those wholesale costs will have to be passed on to consumers. As such, when PPI unexpectedly **dropped**--even if only by a modest amount--markets responded by getting in a slightly more optimistic position for Friday's CPI.

National Average Mortgage Rates



| | Rate | Change | Points |
|----------------------------|------|--------|--------|
| Mortgage News Daily | | | |

| | | | |
|--------------|-------|--------------|------|
| 30 Yr. Fixed | 7.44% | +0.01 | 0.00 |
| 15 Yr. Fixed | 6.85% | +0.01 | 0.00 |
| 30 Yr. FHA | 6.92% | +0.02 | 0.00 |
| 30 Yr. Jumbo | 7.62% | 0.00 | 0.00 |
| 5/1 ARM | 7.41% | +0.01 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|--------------|------|
| 30 Yr. Fixed | 7.10% | -0.34 | 0.00 |
| 15 Yr. Fixed | 6.39% | -0.37 | 0.00 |

Rates as of: 4/19

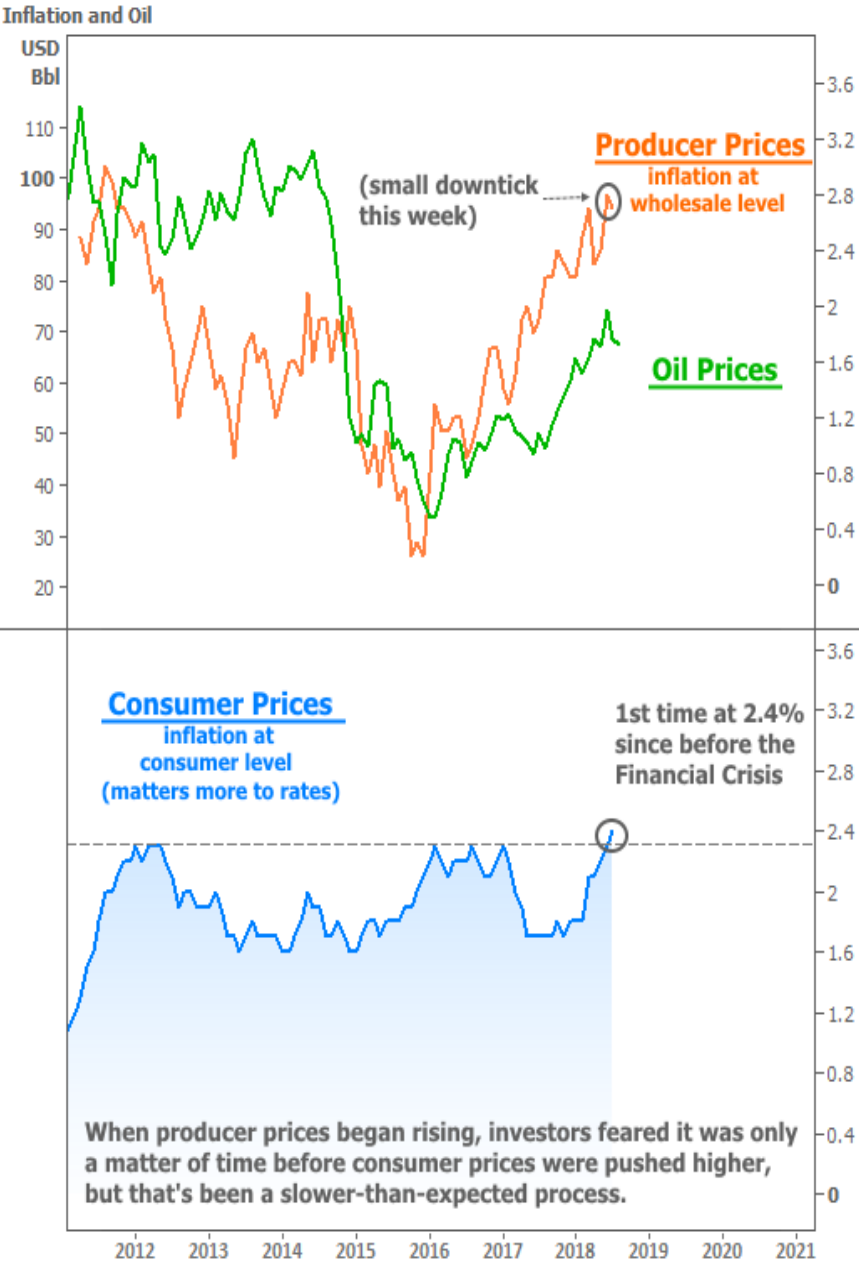
Market Data

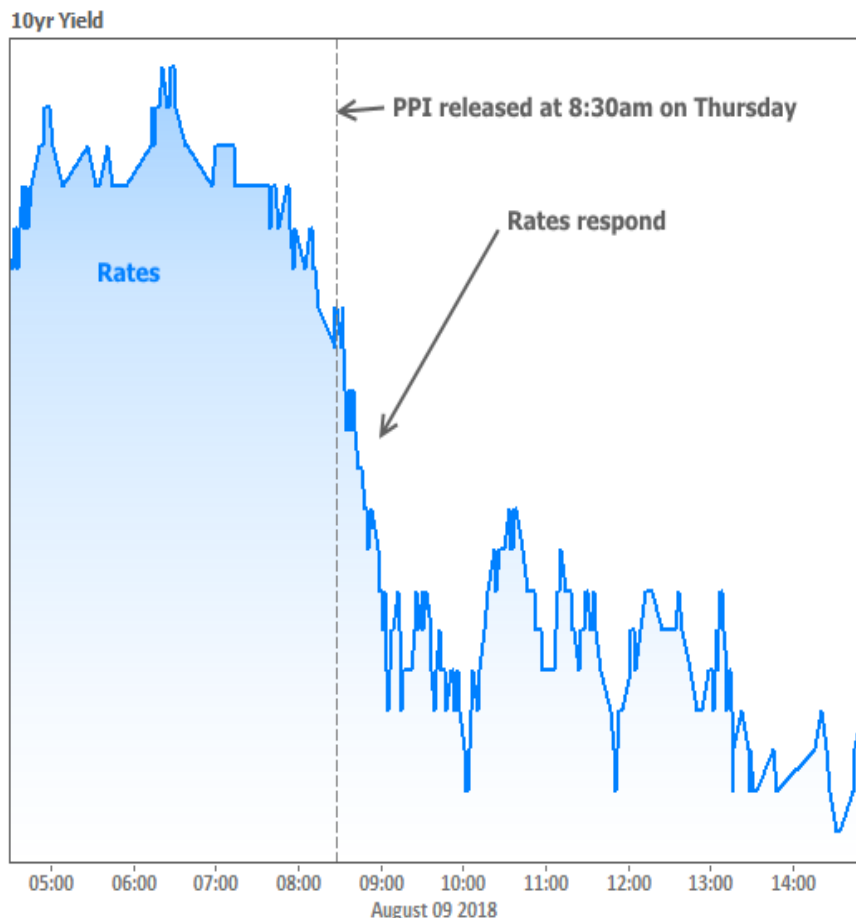
| | Price / Yield | Change |
|----------------|---------------|----------------|
| MBS UMBS 6.0 | 99.32 | +0.02 |
| MBS GNMA 6.0 | 100.08 | +0.02 |
| 10 YR Treasury | 4.6222 | -0.0043 |
| 30 YR Treasury | 4.7101 | -0.0217 |

Pricing as of: 4/19 5:04PM EST

Recent Housing Data

| | | Value | Change |
|---------------------|--------|-------|---------|
| Mortgage Apps | Apr 17 | 202.1 | +3.27% |
| Building Permits | Mar | 1.46M | -3.95% |
| Housing Starts | Mar | 1.32M | -13.15% |
| New Home Sales | Feb | 662K | +0.15% |
| Pending Home Sales | Feb | 75.6 | +1.75% |
| Existing Home Sales | Feb | 3.97M | -0.75% |
| Builder Confidence | Mar | 51 | +6.25% |



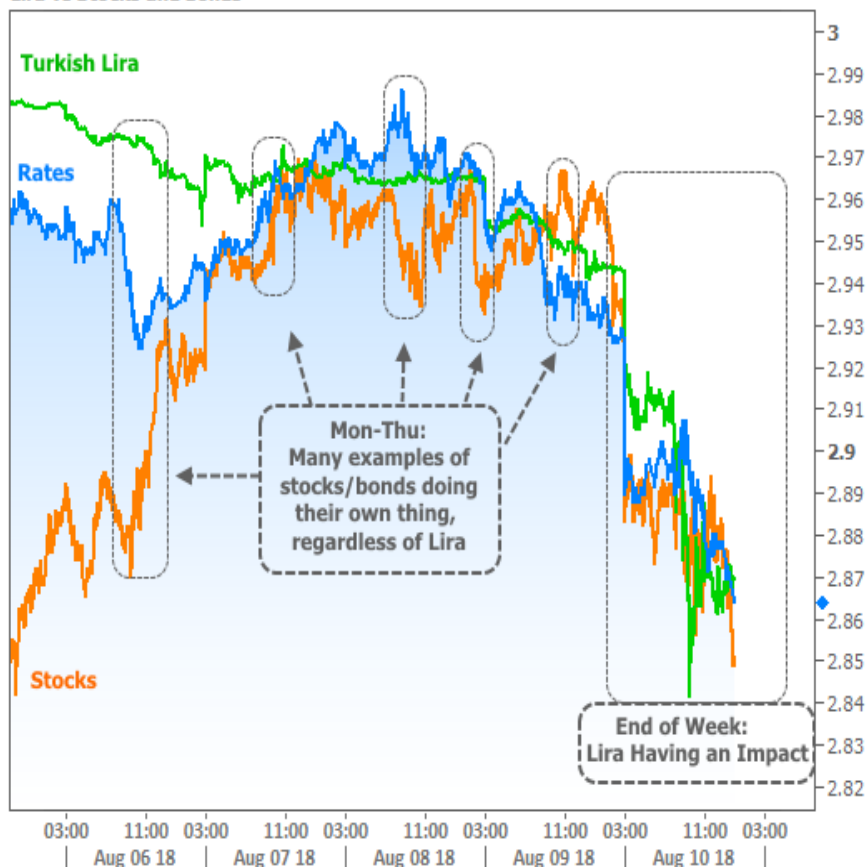


Confused yet? Don't be. I'll break it down:

- **Wholesale** inflation (PPI) was lower than expected on Thursday.
- Inflation correlates with rates (discussed in [last week's newsletter](#))
- So rates moved a bit lower on Thursday, hoping to see a similar "lower-than-expected" result in Friday's **consumer**-level inflation data (CPI)
- The consumer inflation data ended up being just a hair **HIGHER** than expected
- Because **inflation correlates with rates**, this suggested that rates should bounce back up--even if only slightly

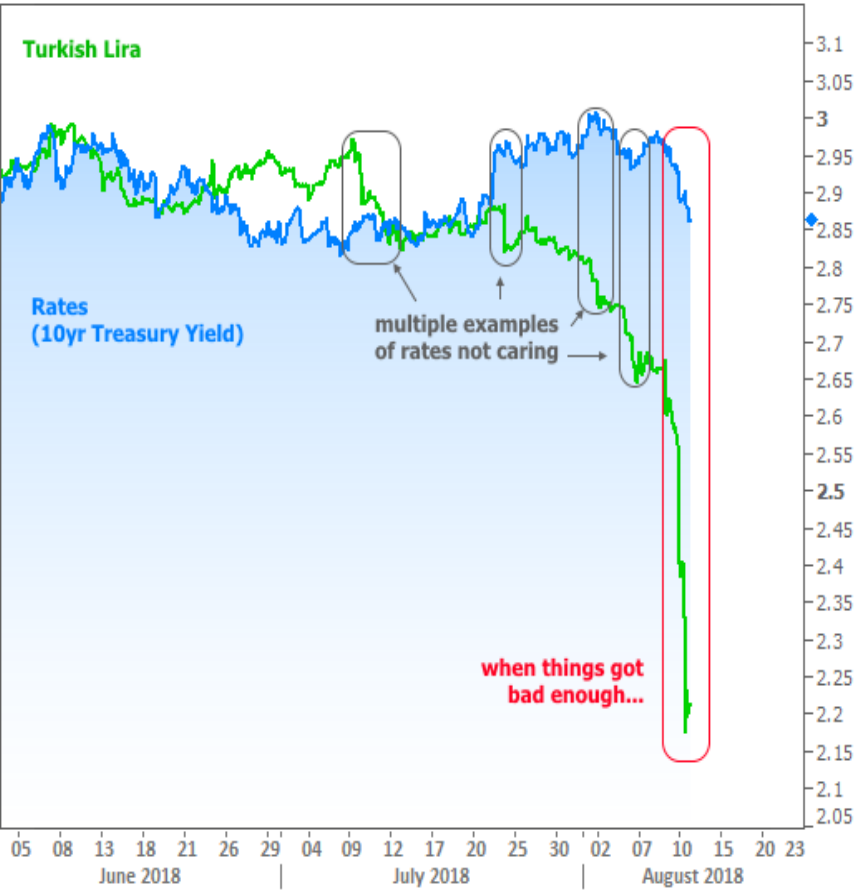
Rates did, indeed move higher in the first few minutes following **Friday** morning's **consumer** price data, but then they turned around and went lower for the rest of the day. The **only** compelling way to explain the move is by pointing to the Turkish crisis. It was the first time this week that such an explanation really worked.

Lira vs Stocks and Bonds

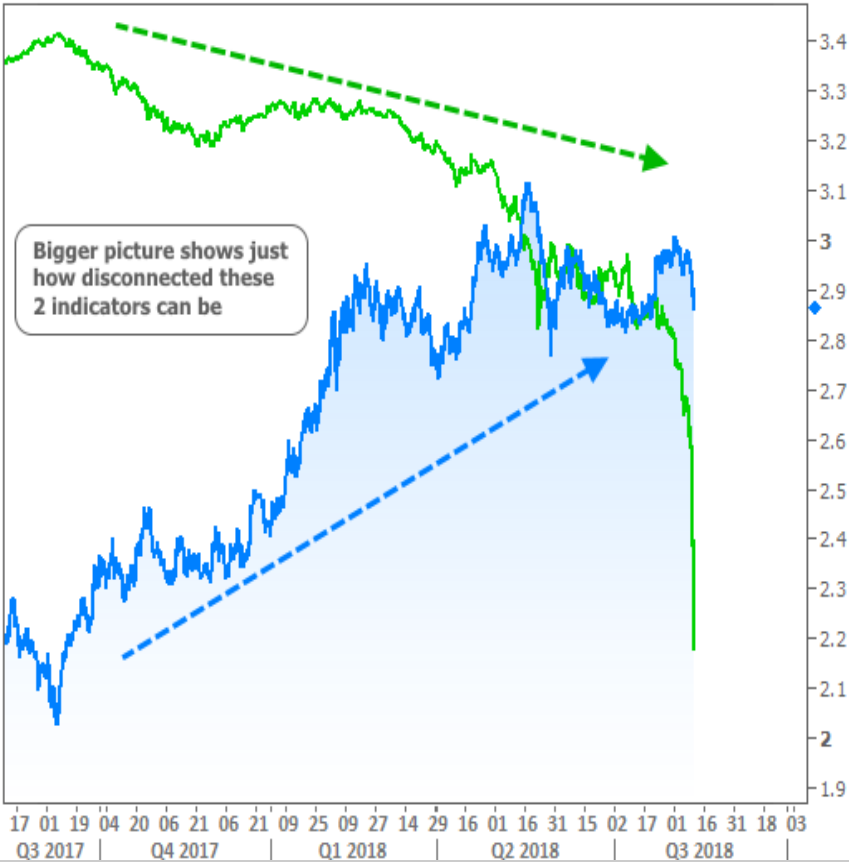


You may wonder why markets suddenly decided to care about Turkey when Mon-Thu saw **so many examples** to the contrary. The reason is fairly logical. Markets always have a list of concerns and potential motivations. Some are clearly in the spotlight and others are lucky to be a sideshow. But even the sideshow market-movers can crank the volume up enough to get the audience's attention. In a nutshell, that's what happened with Turkey on Friday. The following chart will help illustrate how loud the sideshow has gotten. Then, the lower portion will remind us that it's still just a sideshow.

Lira vs Bonds

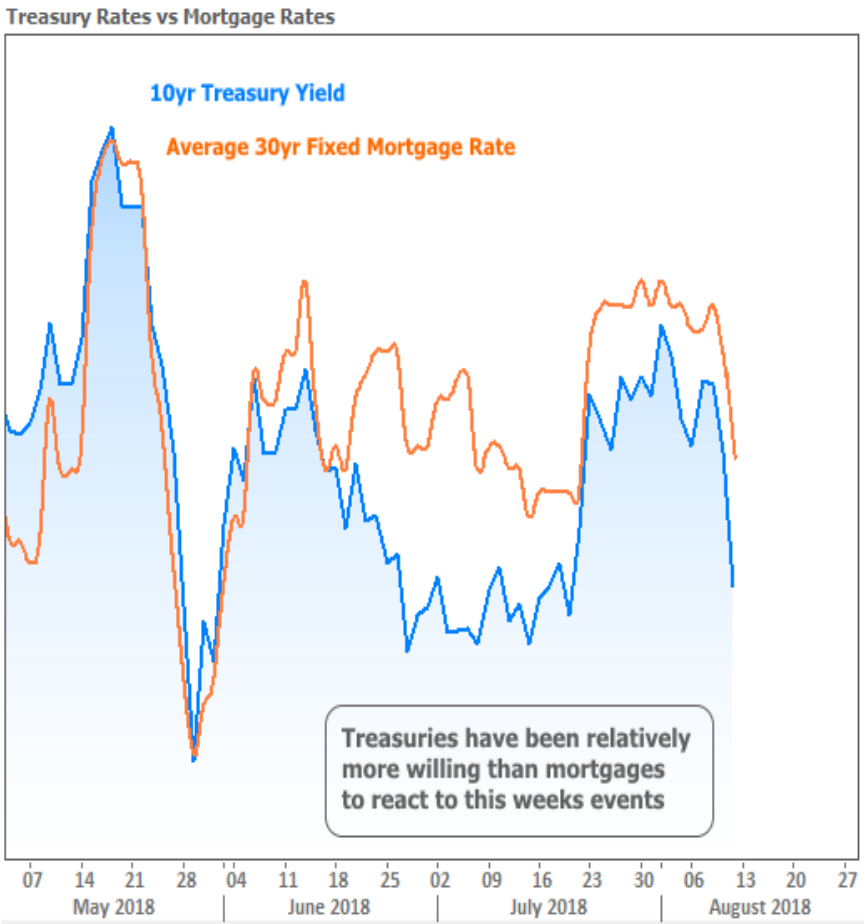


Lira vs Bonds



As is so often the case with these dire situations that are seemingly far removed from US markets, this isn't a black and white issue. You may come across some opinions in the coming days/weeks that credit Turkey for a majority of global market movement. Others may take the opposite stance. The truth is **somewhere in between**, and heavily dependent on how much worse the situation gets before it gets better.

While it's tremendously unlikely to be a game changer in the big picture, it's safe to label the Turkish debt crisis as "moderately helpful" for US interest rates this week. Unfortunately, these sorts of "helpers" (the ones that come from crisis situations abroad), tend to help US Treasuries more than mortgage rates. The following chart shows the relative recent movement.



Next week is fairly calm in terms of scheduled data and events although we will get **several housing-related reports** on Wednesday and Thursday. A smaller slate of potential market movers on the domestic front will leave the door open for Turkish headlines to cause volatility. Just remember that volatility can be for better or worse when it comes to rates. As soon as it looks like Turkey has turned a corner, rates run the risk of adjusting higher moderately, but quickly.

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Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|-------------------|------------------------|--------|----------|-------|
| Tuesday, Aug 07 | | | | |
| 1:00PM | 3-Yr Note Auction (bl) | 34 | | |
| Wednesday, Aug 08 | | | | |

Event Importance:

- No Stars = Insignificant
- ☆ Low
- ★ Moderate
- ★★ Important
- ★★★ Very Important

| Date | Event | Actual | Forecast | Prior |
|-------------------|-----------------------------------|--------|----------|-------|
| 7:00AM | w/e MBA Purchase Index | 233.1 | | 237.9 |
| 7:00AM | w/e Mortgage Refinance Index | 927.6 | | 971.3 |
| Thursday, Aug 09 | | | | |
| 8:30AM | Jul Producer Prices (%) | 0.0 | 0.2 | 0.3 |
| 8:30AM | Jul Core Producer Prices YY (%) | 2.7 | 2.8 | 2.8 |
| 8:30AM | w/e Jobless Claims (k) | 213 | 220 | 219 |
| 10:00AM | Jun Wholesale inventories mm (%) | 0.1 | 0.0 | 0.0 |
| 10:00AM | Jun Wholesale sales mm (%) | -0.1 | 0.5 | 2.5 |
| Friday, Aug 10 | | | | |
| 8:30AM | Jul CPI mm, sa (%) | 0.2 | 0.2 | 0.1 |
| 8:30AM | Jul Core CPI Year/Year (%) | 2.4 | 2.3 | 2.3 |
| Tuesday, Aug 14 | | | | |
| 8:30AM | Jul Import prices mm (%) | 0.0 | 0.1 | -0.4 |
| 8:30AM | Jul Export prices mm (%) | -0.5 | 0.2 | 0.3 |
| Wednesday, Aug 15 | | | | |
| 7:00AM | w/e Mortgage Refinance Index | 927.5 | | 927.6 |
| 7:00AM | w/e MBA Purchase Index | 225.5 | | 233.1 |
| 8:30AM | Jul Retail Sales (%) | 0.5 | 0.1 | 0.5 |
| 8:30AM | Aug NY Fed Manufacturing | 25.60 | 20.00 | 22.60 |
| 8:30AM | Q2 Productivity Preliminary (%) | 2.9 | 2.3 | 0.4 |
| 8:30AM | Q2 Labor Costs Preliminary (%) | -0.9 | 0.3 | 2.9 |
| 9:15AM | Jul Industrial Production (%) | 0.1 | 0.3 | 0.6 |
| 9:15AM | Jul Capacity Utilization (%) | 78.1 | 78.2 | 78.0 |
| 10:00AM | Aug NAHB housing market indx | 67 | 67 | 68 |
| Thursday, Aug 16 | | | | |
| 8:30AM | Jul House starts mm: change (%) | 0.9 | | -12.3 |
| 8:30AM | Jul Building permits: number (ml) | 1.311 | 1.310 | 1.292 |
| 8:30AM | Jul Housing starts number mm (ml) | 1.168 | 1.260 | 1.173 |
| 8:30AM | Aug Philly Fed Business Index | 11.9 | 22.0 | 25.7 |
| 8:30AM | Jul Build permits: change mm (%) | 1.5 | | -0.7 |
| 8:30AM | w/e Jobless Claims (k) | 212 | 215 | 214 |
| Friday, Aug 17 | | | | |
| 10:00AM | Aug Consumer Sentiment | 95.3 | 98.0 | 97.9 |
| 10:00AM | Aug 1yr Inflation Outlook (%) | 2.9 | | 2.9 |
| 10:00AM | Aug 5yr Inflation Outlook (%) | 2.5 | | 2.4 |
| 10:00AM | Jul Leading index chg mm (%) | 0.6 | 0.4 | 0.5 |
| Wednesday, Oct 10 | | | | |
| 1:00PM | 10-yr Note Auction (bl) | 23 | | |
| Thursday, Oct 11 | | | | |

| Date | Event | Actual | Forecast | Prior |
|--------|-------------------------|--------|----------|-------|
| 1:00PM | 30-Yr Bond Auction (bl) | 15 | | |

Who is Mid Valley Financial?

Mid Valley Financial, located in Fresno, CA, is the Central Valley’s premier destination for a wide range of residential and commercial real estate loans. Our commitment to excellence has made us a trusted partner for property buyers and investors seeking tailored financial solutions.

****Why Choose Us:****

With a track record spanning back to our inception in 1985, we have established ourselves as a reliable and innovative lender. We proudly serve properties exclusively within California, having funded loans in all 58 counties of the state. Our deep-rooted experience enables us to navigate complex loan scenarios with expertise and efficiency.

****Our Approach:****

At Mid Valley Financial, we prioritize your financial goals. Whether you're a first-time homebuyer, envisioning your dream property, refinancing an existing mortgage, or looking to tap into your property's equity, our seasoned loan officers offer a wealth of knowledge and over 300 years of collective experience. We ensure that your funds are prepared when you need them, providing a smooth and swift loan process.

****Unlocking Possibilities:****

As one of California’s leading direct lenders, we've streamlined the loan process, minimizing obstacles that often deter borrowers. Many of our clients receive approvals within an hour, showcasing our dedication to quick and hassle-free solutions.

****Your Journey with Us:****

Contact the MVF team today and let us put your journey to property ownership on cruise control. Our mission is to empower borrowers while fostering enduring and meaningful relationships. With highly competitive rates, a commitment to transparency, and a dedication to your financial success, Mid Valley Financial is your partner in realizing your real estate aspirations.

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