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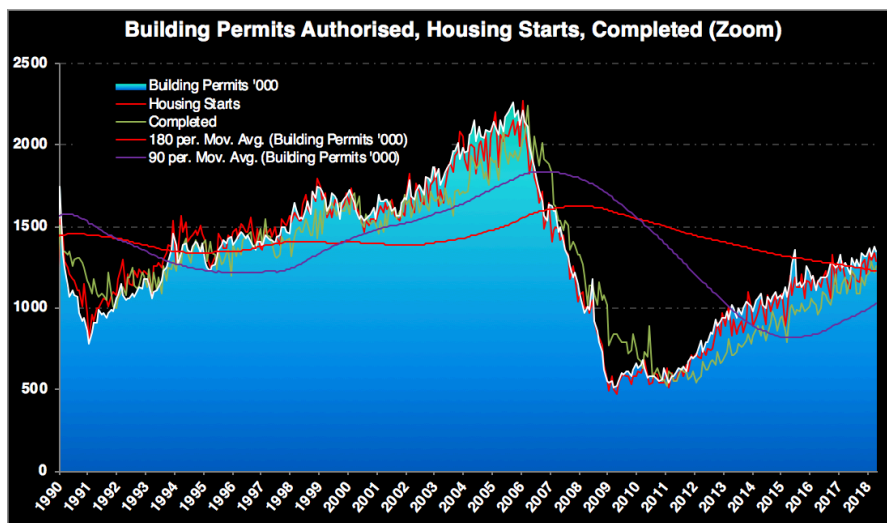
Memo to: First Macro Capital Clients

From: Paul Farrugia

Re: Building of Rates on US Building Activity

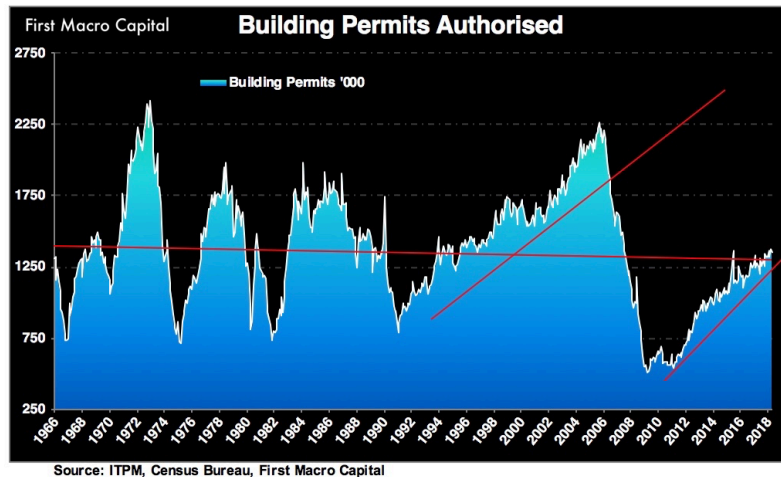
The US posted healthy building permit numbers in April of 1.352 million vs. a forecast of 1.347 million. This is down 1.8% (Forecast -2.3%) on a MoM basis from the March building permits of 1.377 million building permits. These healthy April building permit numbers are consistent with earlier reported PMI's for April. **The U.S. economy continues to remain healthy.**

A healthy housing sector puts less pressure on banks and allows them to keep the lending taps open. The overall trends have not been broken down yet, on the 180,000 permit moving average. Will the US Fed's focus on raising rates break the housing markets back? Yes, eventually it will. All parties will come to an end because new homes are dependent on lending. From the builders getting financing to build the homes and hire contractors, and new homeowners getting a mortgage to purchase the home and purchase new household items on credit, along with home refinancing. Rising rates will slow builder confidence, but it hasn't happened yet.



Source: ITPM, Census Bureau, First Macro Capital

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When we look at total home sales in the US (see table below), we can see home sales continue to be positive, even with the Treasury Yield 3%. It will be one to watch as refinancings fell to the lowest level since 2000, during the four-week ending of May 18, 2018.

Figure 1: Topping Off of Unit Home Sales Would Lead a Cresting of Treasury Bond Yields
sources: National Association of Realtors, US Census Bureau, Moody's Analytics

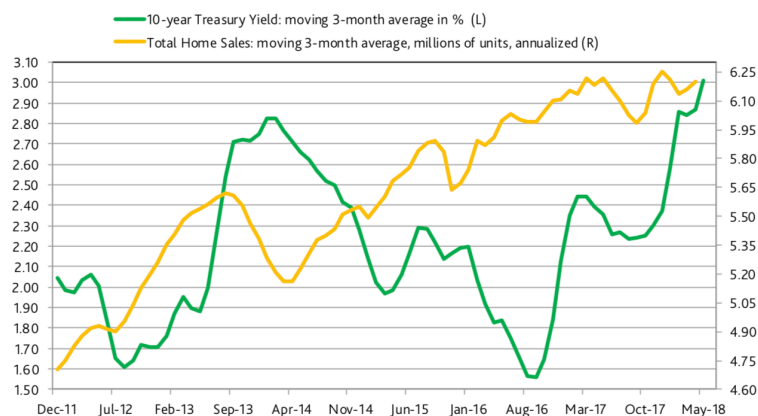


Figure 3: Source: Moody's

“As of May 18, 2018, the Mortgage Bankers Association’s seasonally-adjusted weekly index of applications for mortgage refinancing’s sank to its lowest reading since December 29, 2000. Nevertheless, it should be noted that the MBA commenced a new sample on September 16, 2011.” Source: Moody’s

“By contrast, mortgage applications from prospective homebuyers are holding up much better. During the four weeks ended May 18, the MBA’s average index for homebuyer mortgage applications dipped by 0.9% from the contiguous four-weeks-ended April 20, 2018, as the year-over-year increase slowed from April 20’s 6.6% to May 18’s 3.5%.” Source: Moody’s

We see major credit concerns in auto-lending, student loans, and the unspoken cell-phone lending. We would expect rising interest rates to make something crack in these areas because after 2008 we saw an acceleration of lending in these areas. **We see greater risk in these asset bank securities impairing banks balance sheets going into the next recession. Will consumers be willing to let their cell phone number turn-off? Maybe,**

maybe not. But will consumers forego higher priced phones in exchange for lower-end models? Yes. I don't know the specifics but if consumers canceled their number, and moved to another carrier with a new number for a cheaper phone. That seems plausible. **If consumers can walk away from their home, why can't they walk away from the phone or car?**

"NEW YORK, July 14, 2016 (IFR) - Verizon Wireless this week priced the first US rated bond using cellphone contracts as collateral, a milestone issue that may pave the way for a new asset class in the ABS market." Reuters

With the US now in the process of rolling back Dodd-Frank, it is expected to loosen the purse strings for smaller banks to make more loans. Could this be the juice that accelerates increased mortgages? Was the pause in May refinancing, a pause to wait in see if the new banks' regulations will get the President's approval? **We will watch over the months ahead, to see if banks are loosening up the purse strings to increase lending even as the headwinds of rising rates increases. Or will this new regulation sow the seeds for the next recession? In 1997 bank regulations were loosened again, but the ramifications were only felt 10 years later in the 2007 housing burst, after the tech bubble. This was the shift from intangible to tangibles and thrust a commodity boom. If lending does accelerate, then this will accelerate the demand for commodities like copper and lumber, and consumer products to fill up these homes.** Where silver plays an important role in the electrification of the home, and in solar panels. California recently passed a mandate that requires all new homes to have solar panels.

*"There is one energy mineral I want to highlight, and that's silver. Many people don't think of silver as an energy metal, but solar panels use a lot of silver. I understand from sources in Silicon Valley that a Tesla solar shingle uses about one-third of an ounce of silver. Conventional panels use even more. **The average single-family home in the United States would have more than a kilogram of silver on its roof to go solar. That's a lot of silver that isn't part of the market today**"*
(Goldsilver.com)

There is a saying, "Don't Fight The Fed". We would add a second mantra. "Don't fight the Government". Regulations good or bad will have both positive and negative impacts on industry. There will be winners and losers. This new law in California will increase demand for solar panels going forward, increasing demand for silver.

"Follow the lending and I will show you a boom and then a bust." Paul Farrugia

Notes:

Building or Zoning Permit – The approval given by a local jurisdiction to proceed on a construction project. Note that not all areas of the country require a permit for construction. (Source: Census Bureau)

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Start – Start of construction occurs when excavation begins for the footings or foundation of a building. All housing units in a multifamily building are defined as being started when this excavation begins. Beginning with data for September 1992, estimates of housing starts include units in structures being totally rebuilt on an existing foundation. (Source: Census Bureau)

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