June 1, 2018

Baker Market Update: Week in Review

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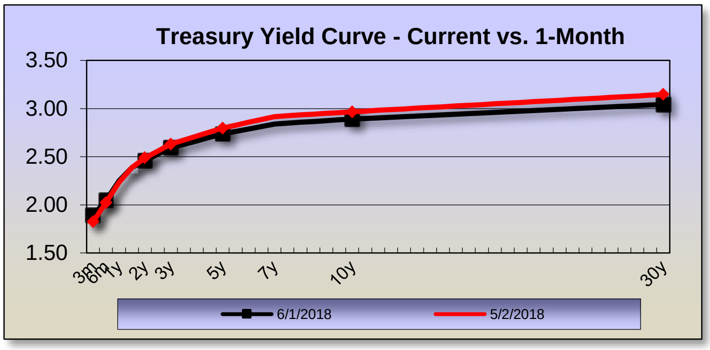
One thing we've learned in recent days is that holiday-shortened weeks can be just as fun as the five-day variety. Tuesday morning (a substitute for Monday morning) brought angst and excitement in the form of a 500-point meltdown in stocks matched by a six-week low on the 10yr T-Note yield as it hit 2.78%. That's what a little Italian constitutional crisis can do for ya. The ugliness in share prices reversed and recouped on Wednesday (Italians calmed down), only to be reconstituted on Thursday as the US tax increase on imports put the rest of the world in a bit of a tizzy. By Friday morning (which feels like Thursday), market watchers were relieved to know that we would finally see a calm day in the form of a simple monthly jobs report.

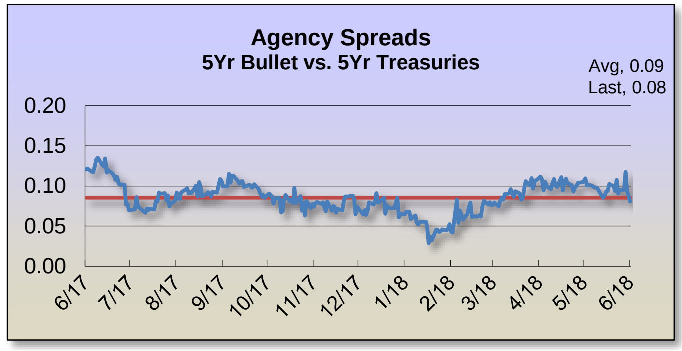
The serenity of dawn's early light was slightly broken by an unorthodox tweet from the White House (imagine that) which leaked the anxiousness of some who reside therewithin to see the public release of the jobs report. Broken protocols and traditional discretion notwithstanding, the anxiousness was understandable as the jobs report was solid indeed. The headline unemployment rate fell to nearly a half-century low of 3.8%. We've come a long way in the nine and a half years since we hit 10% at the depths of the Great Recession. Moreover, we've now seen a cycle high level of wage growth at 2.7% year-over-year. Though labor force participation slipped a bit, most measures of the report were excellent for this well-seasoned point in the recovery. The 10yr Note yield seemed settled at 2.90% after initial data-digestion, while the 2yr hovered around 2.47% as yield curve flattening remains intact.

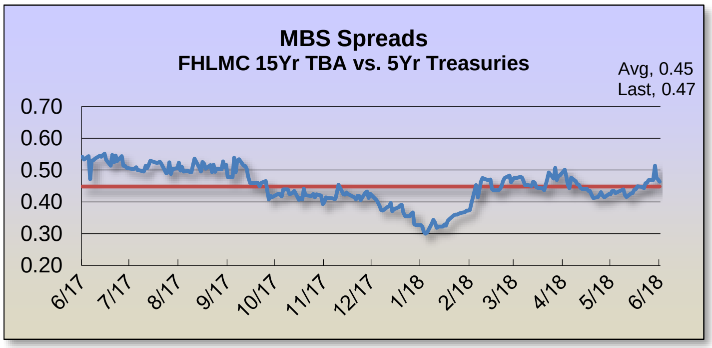
Now, lest we forget the other key numbers this week, please allow a recap: As the Italian food fight was grabbing headlines on Tuesday we learned that US Consumer Confidence (as measured by the Conference Board) came in at 128%, right on the screws vis a vis consensus estimates. Then on Wednesday GDP was revised downward to 2.2% for the quarter… not an earth-shattering revelation…. and eventually, yesterday, whilst European and North American Allies grumbled about US protectionism, we were told that the Fed's preferred measure of inflation, the Core Personal Consumption Expenditures (PCE) index, came in slightly higher than expected for the month, though the year-over-year trend slipped a bit to 1.8% vs 1.9% last month. Once again, the earth was not shattered.

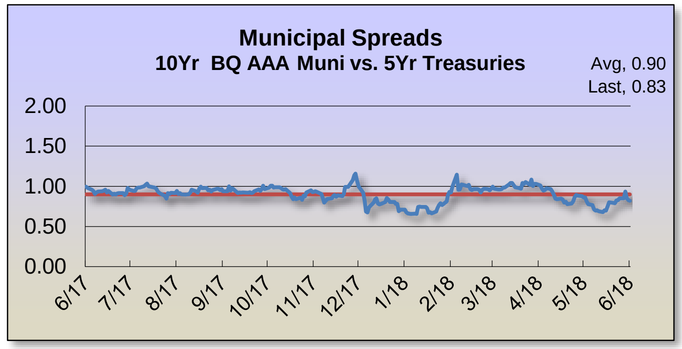
So in the midst of all this, whither the Fed? The dust has not quite settled for the week, but I think it's safe to say that policymakers are resolute and absolute in their determination to raise rates again. How much, how long, and how high are heavy questions hanging 'round the necks of those in charge. Lets hope they don't do what they do best and overdo what needs doing. Time will tell.

Lester will return to duty next week with high wisdom after a cleansing hike in the mountains with canine companions…. At least that's where we think he is.









Treasury Market -- Historical

Maty	Current	1Wk Change	Historical 1 Mo	6 Mo	1 Yr
3mo	1.89	(0.00)	1.85	1.27	0.92
6mo	2.05	(0.03)	2.02	1.44	1.07
1yr	2.23	(0.07)	2.25	1.59	1.16
2yr	2.46	(0.09)	2.49	1.75	1.30
3yr	2.59	(0.12)	2.63	1.85	1.46
5yr	2.74	(0.15)	2.84	2.06	1.80
7yr	2.84	(0.17)	2.97	2.23	2.06
10yr	2.89	(0.17)	3.03	2.34	2.26
30yr	3.04	(0.16)	3.21	2.76	2.92

** Interpolated*

Fixed Rate Market

Maty /AL	N-Call Agency	US Swap	AAA BQ Muni C-Corp[2]	S-Corp[3]	Tax Muni
2yr	2.53	2.71	2.45	2.61	29.00
3yr	2.63	2.80	2.59	2.76	35.67
5yr	2.84	2.87	2.79	2.97	49.00
7yr	2.99	2.91	3.09	3.29	53.00
10yr	3.18	2.97	3.37	3.59	70.00
15yr	3.30	3.02	3.65	3.89	89.00
20yr	3.41	3.02	3.88	4.13	77.00
25yr	3.53	3.01	3.95	4.20	79.00
30yr		2.99	4.02	4.28	81.00

Agency Calls - Euro

Mty	3Mo	6mo	1Yr	2Yr
2Yr	1.94	1.94	1.94	-
3Yr	2.10	2.11	2.11	2.10
5Yr	2.19	2.22	2.24	2.24
7Yr	2.42	2.47	2.52	2.53
10Yr	2.57	2.62	2.69	2.72

July TBA MBS

Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
2.00	3.17	5.1y		
2.50	3.09	5.3y		
3.00	3.17	5.1y	3.45	9.8y
3.50	3.05	2.9y	3.60	9.1y
4.00			3.68	7.4y
4.50			3.71	6.3y

Key Market Indices

Index	Current	1Wk Change	Historical 1 Mo	6 Mo	1 Yr
Fed Funds	**1.75**	--	1.75	1.25	1.00
Primary Discount	**2.25**	--	2.25	1.75	1.50
2ndary Discount	**2.75**	--	2.75	2.25	2.00
Prime Rate	**4.75**	--	4.75	4.25	4.00
Sec. O.N. Finance	**1.74**				
1 Month LIBOR	**1.96**	0.02	1.90	1.33	1.02
3 Month LIBOR	**2.33**	--	2.36	1.46	1.19
6 Month LIBOR	**2.50**	--	2.52	1.65	1.41
1 Year LIBOR	**2.75**	--	2.77	1.93	1.72
6 Month CD	**2.42**	--	2.50	1.63	1.47
1 Year CMT	**2.28**	--	2.25	1.61	1.18
REPO O/N	**1.82**	0.12	1.77	1.05	0.97
REPO 1Wk	**1.78**	--	1.78	1.20	0.80
CoF Federal	**1.811**	--	1.749	1.472	1.269
11th D. CoF (Mar)	**0.814**	--	0.816	0.729	0.583

FHLB Fixed Advance Rates

Maturity	Chicago	Boston	Dallas	Topeka
3mo	2.10	2.26	2.08	2.24
6mo	2.26	2.37	2.26	2.38
1yr	2.52	2.49	2.48	2.60
2yr	2.68	2.86	2.71	2.90
3yr	2.80	2.99	2.89	3.03
4yr	2.92	3.13	3.02	3.15
5yr	2.97	3.18	3.07	3.19
7yr	3.19	3.44	3.30	3.34
10yr	3.40	3.67	3.51	3.55
5yr Am	2.85		2.94	3.11
10yr Am	3.20		3.30	3.43

Fed Fund Futures

Maturity	Rate
Jun-18	1.825
Jul-18	1.910
Aug-18	1.920
Aug-18	1.920
Oct-18	2.070
Oct-18	2.070
Dec-18	2.130
Dec-18	2.130
Jan-19	2.205
Mar-19	2.255
Apr-19	2.325

Lunch with Lester

The BakerGroup

June 1, 2018

Weekly Economic Calendar

This Week & Next

Date	Release	Per.	Est.	Actual	Prior	Revised
05/29	S&P CoreLogic CS 20-City YoY NSA	Mar	6.45%	6.79%	~~6.80%~~	6.76%
05/29	S&P CoreLogic CS US HPI YoY NSA	Mar	--	6.53%	~~6.34%~~	6.51%
05/29	Conf. Board Consumer Confidence	May	128.00	128.00	~~128.70~~	125.60
05/29	Conf. Board Present Situation	May	--	161.70	~~159.60~~	157.50
05/29	Conf. Board Expectations	May	--	105.60	~~108.10~~	104.30
05/30	MBA Mortgage Applications	5/25	--	-2.90%	-2.60%	--
05/30	ADP Employment Change	May	190k	178k	~~204k~~	163k
05/30	GDP Annualized QoQ	1Q S	2.30%	2.20%	2.30%	--
05/30	Personal Consumption	1Q S	1.20%	1.00%	1.10%	--
05/30	GDP Price Index	1Q S	2.00%	1.90%	2.00%	--
05/30	Core PCE QoQ	1Q S	2.50%	2.30%	2.50%	--
05/30	Advance Goods Trade Balance	Apr	-$71.0b	-$68.2b	~~-$68.0b~~	-$68.6b
05/31	Challenger Job Cuts YoY	May	--	-4.80%	-1.40%	--
05/31	Personal Income	Apr	0.30%	0.30%	~~0.30%~~	0.20%
05/31	Personal Spending	Apr	0.40%	0.60%	~~0.40%~~	0.50%
05/31	Real Personal Spending	Apr	0.20%	0.40%	~~0.40%~~	0.50%
05/31	PCE Deflator YoY	Apr	2.00%	2.00%	2.00%	--
05/31	PCE Core YoY	Apr	1.80%	1.80%	~~1.90%~~	1.80%
05/31	Initial Jobless Claims	5/26	228k	221k	234k	--
05/31	Continuing Claims	5/19	1733k	1726k	~~1741k~~	1742k
05/31	Chicago Purchasing Manager	May	58.30	62.70	57.60	--
05/31	Pending Home Sales NSA YoY	Apr	--	0.40%	~~-4.40%~~	-4.30%
06/01	Change in Nonfarm Payrolls	May	190k	223k	~~164k~~	159k
06/01	Two-Month Payroll Net Revision	May	--	15k	--	--
06/01	Change in Private Payrolls	May	190k	218k	~~168k~~	162k
06/01	Change in Manufact. Payrolls	May	20k	18k	~~24k~~	25k
06/01	Unemployment Rate	May	3.90%	3.80%	3.90%	--
06/01	Underemployment Rate	May	--	7.60%	7.80%	--
06/01	Average Hourly Earnings YoY	May	2.60%	2.70%	2.60%	--
06/01	Average Weekly Hours All Employees	May	34.50	34.50	34.50	--
06/01	Labor Force Participation Rate	May	--	62.70%	62.80%	--
06/01	Markit US Manufacturing PMI	May F	56.60	56.40	56.60	--
06/01	ISM Manufacturing	May	58.20	58.70	57.30	--
06/01	ISM Employment	May	--	56.30	54.20	--
06/01	ISM Prices Paid	May	78.00	79.50	79.30	--
06/01	ISM New Orders	May	--	63.70	61.20	--
06/01	Wards Total Vehicle Sales	May	16.70m	--	17.07m	--
06/04	Factory Orders Ex Trans	Apr	--	--	0.30%	--
06/04	Durables Ex Transportation	Apr F	--	--	0.90%	--
06/04	Cap Goods Ship Nondef Ex Air	Apr F	--	--	0.80%	--
06/05	Markit US Composite PMI	May F	--	--	55.70	--
06/05	JOLTS Job Openings	Apr	--	--	6550.00	--
06/05	ISM Non-Manf. Composite	May	57.90	--	56.80	--
06/06	Nonfarm Productivity	1Q F	0.70%	--	0.70%	--
06/06	Unit Labor Costs	1Q F	2.80%	--	2.70%	--
06/07	Initial Jobless Claims	6/2	223k	--	221k	--
06/07	Continuing Claims	5/26	--	--	1726k	--

MBS Prepayments[4]

3-Month CPR

Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.7	12.6	14.0	16.1	24.6	30.2
FH/FN 15y	5.2	5.4	6.4	13.0	14.9	18.3
GN 15y	7.4	10.9	12.4	12.1	12.8	12.8
FH/FN 20y		5.6	7.1	8.4	10.2	12.5
FH/FN 30y	3.0	4.5	3.1	4.9	8.4	13.7
GN 30y	6.4	9.0	10.9	14.0	14.2	15.9

CPR Projections

Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.7	11.3	12.1	17.3	18.6	21.9
FH/FN 15y	7.5	8.1	8.9	11.2	15.8	25.0
GN 15y	7.0	10.1	11.8	13.8	12.6	12.5
FH/FN 20y	3.1	6.7	7.6	9.4	11.0	13.4
FH/FN 30y	4.9	5.7	5.8	6.9	9.4	11.8
GN 30y	5.7	7.9	8.7	10.7	16.0	19.1

Other Markets

		1Wk	Historical		
Index	Current	Chng	1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	109.29	(1.49)	109.43	111.09	111.84
Euro	1.17	(0.01)	1.22	1.19	1.12
Dollar Index	94.17	0.54	91.17	92.78	97.25
Major Stock Indices					
Dow Jones	24,801	86	24,084	23,558	21,083
S&P 500	2,721.0	8.0	2,639.4	2,602.4	2,415.1
NASDAQ	7,445.6	91	7,003.7	6,889.2	6,205.3
Commodities					
Gold	1,304.0	12.7	1,321.2	1,287.3	1,256.4
Crude Oil	68.67	(2.61)	68.05	58.95	48.90
Natural Gas	2.95	0.10	2.79	2.81	3.18
Wheat	538.5	20.3	486.3	415.8	430.8
Corn	405.0	2.5	386.5	342.3	369.3

Notes

1 Call Agy = Maturity at left w/ a 1-Year Call at Par
2 Muni TEY (21% Fed, 0.5% CoF)
3 S-Corp TEY Muni (29.6%, no TEFERA)
4 MBS Prepayments are provided by Bloomberg

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 06/01/2018 10:21AM