

## Baker Market Update: Week in Review

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In a thinly veiled response to ABC's recent cancellation of "Roseanne", Fed Chairman Jerome Powell announced this week that he will be holding a press conference after *each* of the FOMC's meetings rather than the traditional every-other-one schedule. Ratings will soar. The telegenic Mr. Powell indicated that interest rates, while perhaps not soaring, will still be gaining altitude. To the surprise of no one, the Federal Open Market Committee effected its seventh, quarter-point increase of this cycle in the target rate for Fed Funds and strongly indicated that two more hikes could well be coming before the year is out. "The decision you see today is another sign that the U.S. economy is in great shape," said Jerome. "Real (inflation adjusted) Average Hourly Earnings have a year-over-year growth rate of 0.0%," said the Bureau of Labor Statistics.

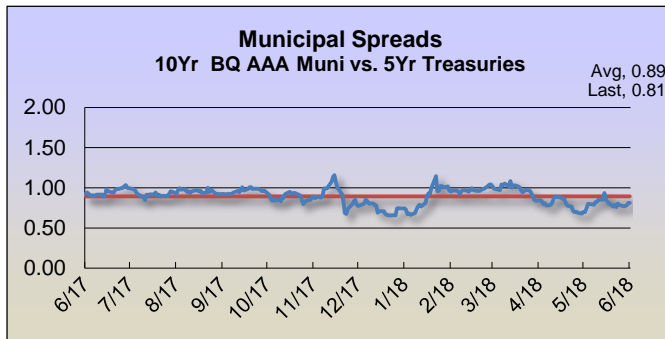
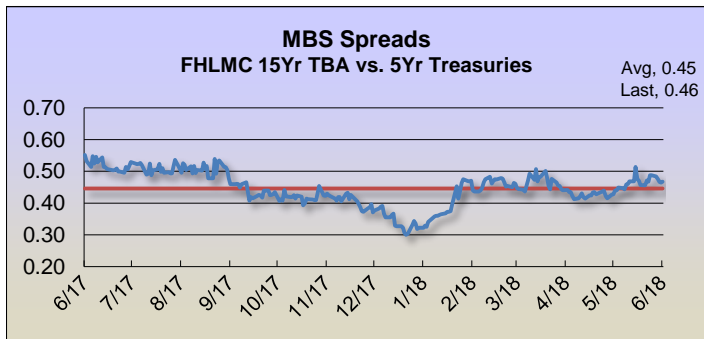
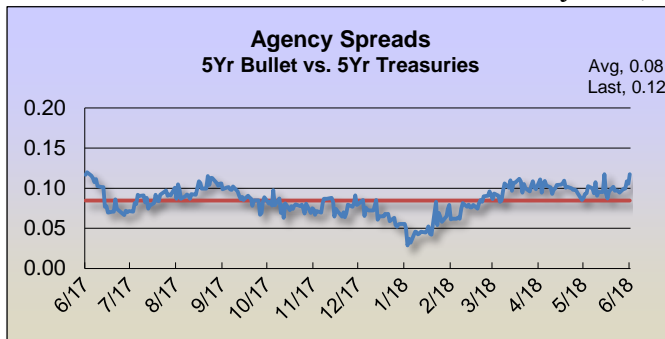
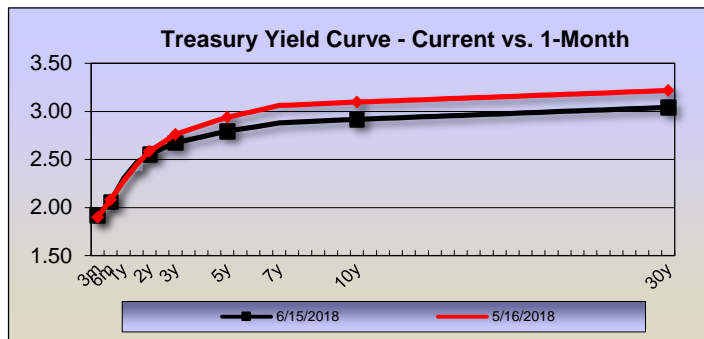
The BLS went on to say that the Fed's wish for higher inflation is coming true as it reported that the Consumer Price Index (CPI) rose by 0.2% last month putting the y-o-y pace at 2.8%. Without food & energy, the CPI "core" rate rose by an identical two-tenths putting its annual rate at 2.2%. So-called "wholesale" inflation as measured by the Producer Price Index (PPI), is similarly on the rise. The "core" PPI rate rose by 0.3% for the month and stands at 2.4% year-over-year. Late cycle inflation might have arrived late, but it's here.

While the price report was roughly in line with expectations, the Retail Sales numbers from the Census Bureau were not. The 0.8% rise in that measure was *twice* what was expected. Without automobiles, the May increase was 0.9%. Maybe Jerome's on to something. No surprise, then, that the University of Michigan's preliminary report on its Consumer Sentiment Index notched a substantial boost to 99.3 from 98. Shopping may make people happy, but getting a raise would probably make them happier.

Small business owners are already happy and appear to be getting even more jubilant. The National Federation of Independent Businesses (NFIB) Small Business Optimism Index got really optimistic as it rose substantially and unexpectedly to 107.8 from 104.8. The optimism contagion doesn't stop there. At the Atlanta Fed, home of the GDPNow forecasting model, the sun is shining on its most recent weekly estimate of Q2 GDP. Are you sitting down? With just two weeks left in June, the Fedsters in Georgia say we're looking at a 4.8% quarter. Wow! Just imagine what *that* will do to Jerome's ratings. Will this just be a short-term sugar rush from the recent tax cuts, or a harbinger of renewed and long-lasting vigor? Only time will tell. In the meantime, you can wash down that Moon Pie with a Mountain Dew.

And, it'll take a little more time to tell if we're really going to have a trade war, or not, and what the consequences of such a skirmish might be. Amid the empirical and rhetorical justification of the Central Bank's high road to higher rates, one might think that credit markets are swooning, but think again. As President Trump continues to play out his role as the paladin of free trade, the Treasury market continues to play out its role as a safe haven for jittery investors. Even in the face of the frolicsome Fed and the dynamite data, the Ten-Year yield is languishing around 2.90% with only 45 basis points between it and the two-year. With the Administration still voicing its intent to impose the much discussed import tariffs on some of its trading partners, Chinese officials continue to voice that nation's intent to impose retaliatory measures of its own. That seems reasonable. Troubling, but reasonable. Perhaps more troubling was the rumor that Sino officials would not allow future FOMC Press Conferences to be "streamed" on the state-controlled internet. Your FOMC app won't work in Beijing.

Next week we'll find out a little bit more about what's working in the housing market with new reports for Starts and New Permits along with sales of Existing Homes and the FHFA Price Index. It's also Father's Day this weekend so a call to your Dad is in order. A text message to your Dad is not. Be careful out there.



Treasury Market -- Historical						Fixed Rate Market										
Maty	Current	1Wk Change	Historical			Maty /AL	N-Call Agency	US Swap	AAA BQ Muni		Tax Muni	Agency Calls - Euro				
			1 Mo	6 Mo	1 Yr				C-Corp <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	1.92	0.01	1.91	1.32	1.00	2yr	2.62	2.83	2.32	2.47	29.00	2Yr	1.94	1.94	1.94	-
6mo	2.06	(0.04)	2.08	1.47	1.12	3yr	2.71	2.91	2.53	2.70	35.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.31	0.02	2.28	1.69	1.20	5yr	2.90	2.94	2.80	2.98	48.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.55	0.05	2.58	1.84	1.35	7yr	3.03	2.96	3.15	3.35	51.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.67	0.04	2.75	1.95	1.49	10yr	3.19	2.99	3.49	3.71	70.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.79	0.01	2.92	2.15	1.76	15yr	3.30	3.02	3.81	4.05	89.00	July TBA MBS				
7yr	2.88	(0.02)	3.04	2.28	1.99	20yr	3.42	3.03	4.05	4.31	79.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.92	(0.03)	3.07	2.35	2.16	25yr	3.53	3.01	4.13	4.40	81.00	2.00	3.23	5.0y		
30yr	3.04	(0.05)	3.20	2.69	2.79	30yr		2.99	4.21	4.48	83.00	2.50	3.14	5.3y		
												3.00	3.18	5.1y	3.46	9.9y
												3.50	3.06	2.9y	3.61	9.1y
												4.00			3.70	7.5y
												4.50			3.72	6.3y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.00	0.25	1.75	1.50	1.25
Primary Discount	2.25	--	2.25	1.75	1.50
2ndary Discount	2.75	--	2.75	2.25	2.00
Prime Rate	5.00	0.25	4.75	4.50	4.25
Sec. O.N. Finance	1.90				
1 Month LIBOR	2.09	0.04	1.93	1.49	1.17
3 Month LIBOR	2.33	--	2.33	1.60	1.25
6 Month LIBOR	2.50	0.01	2.50	1.77	1.43
1 Year LIBOR	2.77	0.02	2.76	2.04	1.74
6 Month CD	2.33	--	2.45	1.75	1.30
1 Year CMT	2.35	0.04	2.28	1.70	1.20
REPO O/N	2.02	0.28	1.73	1.49	1.35
REPO 1Wk	2.00	0.08	1.78	1.45	1.18
CoF Federal	1.811	--	1.749	1.472	1.269
11th D. CoF (Apr)	0.895	--	0.814	0.737	0.645

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	2.12	2.28	2.09	2.27	Jun-18	1.815
6mo	2.25	2.36	2.24	2.37	Jul-18	1.910
1yr	2.59	2.56	2.47	2.65	Aug-18	1.915
2yr	2.75	2.93	2.78	2.96	Sep-18	1.945
3yr	2.86	3.05	2.95	3.08	Oct-18	2.120
4yr	2.95	3.15	3.05	3.18	Nov-18	2.130
5yr	2.98	3.19	3.08	3.19	Dec-18	2.185
7yr	3.20	3.44	3.30	3.34	Jan-19	2.275
10yr	3.37	3.63	3.47	3.51	Feb-19	2.300
5yr Am	2.90		2.88	3.14	Mar-19	2.345
10yr Am	3.21		3.22	3.42	Apr-19	2.430

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
06/12	NFIB Small Business Optimism	May	105.00	107.80	104.80	--
06/12	CPI YoY	May	2.80%	2.80%	2.50%	--
06/12	CPI Ex Food and Energy YoY	May	2.20%	2.20%	2.10%	--
06/12	CPI Index NSA	May	251.61	251.59	250.55	--
06/12	CPI Core Index SA	May	256.88	256.89	256.45	--
06/12	Real Avg Weekly Earnings YoY	May	--	0.30%	0.40%	--
06/12	Real Avg Hourly Earning YoY	May	--	0.00%	0.20%	--
06/12	Monthly Budget Statement	May	-\$144.0b	-\$146.8b	-\$88.4b	--
06/13	MBA Mortgage Applications	6/8	--	-1.50%	4.10%	--
06/13	PPI Final Demand MoM	May	0.30%	0.50%	0.10%	--
06/13	PPI Ex Food and Energy MoM	May	0.20%	0.30%	0.20%	--
06/13	PPI Ex Food, Energy, Trade MoM	May	0.20%	0.10%	0.10%	--
06/13	PPI Final Demand YoY	May	2.80%	3.10%	2.60%	--
06/13	PPI Ex Food and Energy YoY	May	2.30%	2.40%	2.30%	--
06/13	PPI Ex Food, Energy, Trade YoY	May	--	2.60%	2.50%	--
06/13	FOMC Rate Decision (Upper Bound)	6/13	2.00%	2.00%	1.75%	--
06/13	FOMC Rate Decision (Lower Bound)	6/13	1.75%	1.75%	1.50%	--
06/14	Retail Sales Advance MoM	May	0.40%	0.80%	0.30%	0.40%
06/14	Retail Sales Ex Auto MoM	May	0.50%	0.90%	0.30%	0.40%
06/14	Retail Sales Ex Auto and Gas	May	0.40%	0.80%	0.30%	--
06/14	Retail Sales Control Group	May	0.40%	0.50%	0.40%	0.60%
06/14	Import Price Index MoM	May	0.50%	0.60%	0.30%	0.60%
06/14	Import Price Index ex Petroleum MoM	May	0.20%	0.10%	0.10%	--
06/14	Import Price Index YoY	May	3.90%	4.30%	3.30%	3.60%
06/14	Export Price Index YoY	May	--	4.90%	3.80%	3.70%
06/14	Initial Jobless Claims	6/9	223k	218k	222k	--
06/14	Continuing Claims	6/2	1732k	1697k	1744k	1746k
06/14	Bloomberg Consumer Comfort	6/10	--	55.80	54.80	--
06/14	Business Inventories	Apr	0.30%	0.30%	0.00%	-0.10%
06/15	Empire Manufacturing	Jun	18.80	25.00	20.10	--
06/15	Industrial Production MoM	May	0.20%	-0.10%	0.70%	0.90%
06/15	Manufacturing (SIC) Production	May	0.00%	-0.70%	0.50%	0.60%
06/15	Capacity Utilization	May	78.10%	77.90%	78.00%	78.10%
06/15	U. of Mich. Sentiment	Jun P	98.50	99.30	98.00	--
06/15	U. of Mich. Current Conditions	Jun P	--	117.90	111.80	--
06/15	U. of Mich. Expectations	Jun P	--	87.40	89.10	--
06/15	U. of Mich. 1 Yr Inflation	Jun P	--	2.90%	2.80%	--
06/15	U. of Mich. 5-10 Yr Inflation	Jun P	--	2.60%	2.50%	--
06/15	Total Net TIC Flows	Apr	--	--	-\$38.5b	--
06/15	Net Long-term TIC Flows	Apr	--	--	\$61.8b	--
06/18	NAHB Housing Market Index	Jun	70.00	--	70.00	--
06/19	Housing Starts	May	1314k	--	1287k	--
06/19	Housing Starts MoM	May	2.10%	--	-3.70%	--
06/19	Building Permits	May	1350k	--	1352k	1364k
06/20	MBA Mortgage Applications	6/15	--	--	-1.50%	--
06/20	Current Account Balance	1Q	-\$129.0b	--	-\$128.2b	--
06/20	Existing Home Sales	May	5.54m	--	5.46m	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.9	13.4	14.5	16.5	25.0	29.9
FH/FN 15y	6.2	6.0	7.3	13.5	15.3	18.7
GN 15y	9.1	12.2	12.8	12.9	13.3	14.0
FH/FN 20y		6.3	7.9	9.0	10.3	12.8
FH/FN 30y	3.2	5.3	3.6	5.3	8.7	14.3
GN 30y	9.2	9.7	12.2	15.0	15.1	16.4
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.4	11.4	12.1	17.4	18.8	22.3
FH/FN 15y	7.5	8.2	8.9	11.2	14.7	24.9
GN 15y	9.1	10.0	11.8	13.8	12.7	12.4
FH/FN 20y	3.1	6.7	7.6	9.4	11.4	13.7
FH/FN 30y	4.9	5.7	5.9	7.0	9.7	12.5
GN 30y	7.5	7.9	8.8	10.7	16.0	19.4

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	110.57	1.02	110.35	112.60	110.93
Euro	1.16	(0.02)	1.18	1.17	1.11
Dollar Index	94.67	1.14	93.22	93.93	97.43
<b>Major Stock Indices</b>					
Dow Jones	24,944	(372)	24,706	24,652	21,360
S&P 500	2,767.5	(11.5)	2,711.5	2,675.8	2,432.5
NASDAQ	7,725.3	80	7,351.6	6,936.6	6,165.5
<b>Commodities</b>					
Gold	1,275.6	(22.5)	1,290.3	1,254.3	1,252.2
Crude Oil	64.66	(1.08)	71.31	57.30	44.46
Natural Gas	3.03	0.14	2.84	2.61	3.06
Wheat	504.3	-15.8	493.5	418.3	453.8
Corn	367.5	-10.3	402.3	347.5	379.5

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	

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