

Baker Market Update: Week in Review

Lester Murray

Associate Partner

Financial Strategies Group

lester@gobaker.com

800.937.2257

The Baker Group

GoBaker.com

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



Fed Chairman Jerome Powell was in Portugal yesterday speaking at a conference hosted by the European Central Bank. One assumes he was there to share his wisdom and experience with his counterpart, Mario Draghi. “As is often the case,” said Mr. Powell, “in the current environment, significant uncertainty attends the process of making monetary policy.” There’s a reason that Jerome sits at the head of *our* big, shiny table. His impressive and comprehensive grasp of the obvious isn’t something taught in business schools; one either has it, or they don’t.

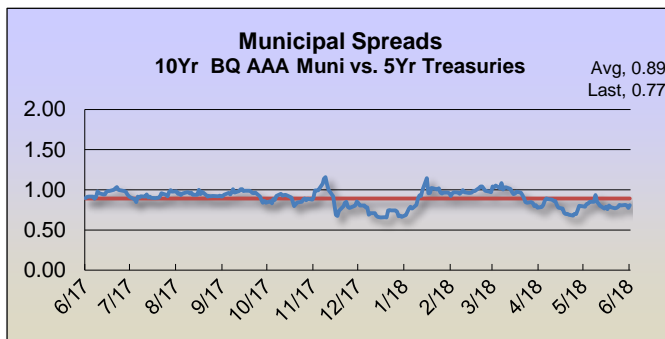
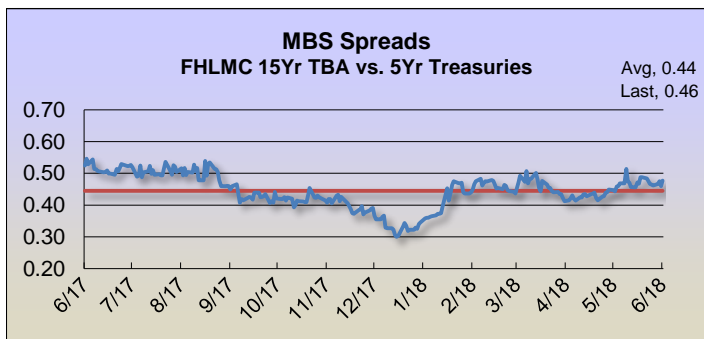
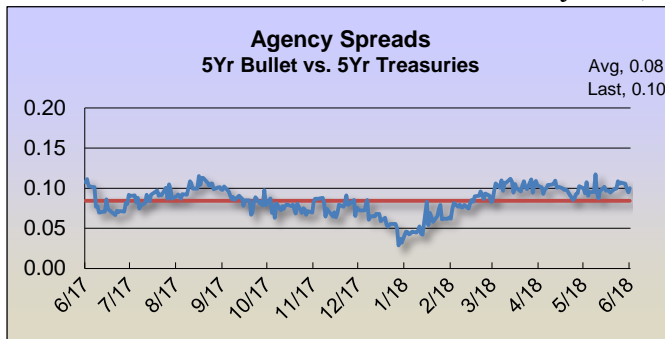
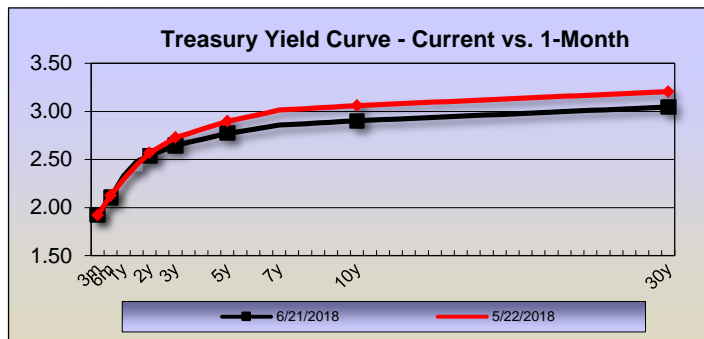
Like a trade war; we’ll either have one, or we won’t. With America’s opening salvo having already been fired, concerns about China following through on its administration’s bellicose rhetoric to retaliate in kind has sporadically spooked investors throughout the week. In turn, the spookiness has sporadically been assuaged by less confrontational rhetoric as each side alternates between threatening and cajoling before ultimately returning to threatening. Wax-on; wax-off.

More than the week’s economic data releases, the Sino-American back-and-forth has mostly benefitted the U.S. Treasury market as yields have stayed well below 2.95% and, early in the week, below 2.90%. As market participants universally, and rightly, perceive that these kinds of things, once begun, seldom end well for either antagonist or protagonist, jittery people with lots of money tend to buy lots of Treasuries. So, even with all the positive vibes about how well the domestic economy is doing and how much inflationary forces are on the rise, the yield for Ten-Year Treasuries somehow manages to stay below 3%. Things that make you say “hmmm.”

Now, if you happened to catch Monday’s report on new Housing Starts, it might have made you say “wow!” The 5% jump in May’s volume far exceeded market estimates. Existing Home Sales, on the other hand, was more of an “ow” as they contracted by 0.4% in May. Despite the sluggish sales, the FHFA U.S. House Price Index has climbed by 6.4% year-over-year and, for those that have been paying attention, that is **way** more than incomes have been rising. Something else that has been steadily rising, until now that is, is the Philadelphia Fed’s Business Outlook Survey Diffusion Index of General Conditions. It’s plunge in June to 19.9 from 34.4 could be seen as a manifestation of negative trade war consequences. It remains unclear what the positive consequences of a trade war would look like. International eyes are focused on Italy today as the just-announced addition of two anti-EU members-of-parliament could create new controversy for that fractious entity.

What may, or may not, be a positive consequence of tariffs is a shrinking trade deficit. It was announced this week that, at the end of the first quarter, the Current Account Balance of -\$124.1B was less negative than expected, but, rather than shrinking, it grew substantially following Q4’s -\$116.1B. Since the new tariffs weren’t officially in effect in the year’s first quarter, it’ll take some time to see how things play out.

The rest of this week will have to play out without me as I’ll be out and about, riding for the brand. Next week is full of data regarding the highly touted, and long expected, boom in capital spending as new reports for Durable Goods and Capital Goods Orders are due to be released. One more Q1 GDP recount is also on the agenda along with a fresh read from the Conference Board about how consumers are feeling. Since today is the first day of summer, they ought to be feeling pretty good. That should be obvious to everyone. Until next week, 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 ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
3mo	1.93	(0.00)	1.90	1.35	0.98	2yr	2.60	2.81	2.30	2.44	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.11	0.05	2.10	1.53	1.12	3yr	2.67	2.88	2.51	2.67	28.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.33	0.02	2.32	1.71	1.21	5yr	2.87	2.92	2.79	2.97	41.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.54	(0.02)	2.57	1.88	1.35	7yr	3.00	2.93	3.12	3.32	44.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.65	(0.04)	2.73	2.00	1.49	10yr	3.17	2.97	3.46	3.68	64.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.77	(0.04)	2.90	2.25	1.77	15yr	3.29	3.01	3.75	3.99	94.00	July TBA MBS				
7yr	2.86	(0.04)	3.01	2.40	1.99	20yr	3.42	3.01	3.98	4.23	91.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.90	(0.03)	3.06	2.48	2.16	25yr	3.55	2.99	4.06	4.32	93.00	2.00	3.23	5.0y		
30yr	3.05	(0.01)	3.20	2.84	2.73	30yr		2.98	4.14	4.41	95.00	2.50	3.14	5.3y		
												3.00	3.17	5.1y	3.44	9.9y
												3.50	3.07	2.9y	3.60	9.1y
												4.00			3.69	7.4y
												4.50			3.70	6.2y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.00	--	1.75	1.50	1.25
Primary Discount	2.50	0.25	2.25	2.00	1.75
2ndary Discount	3.00	0.25	2.75	2.50	2.25
Prime Rate	5.00	--	4.75	4.50	4.25
Sec. O.N. Finance	1.87				
1 Month LIBOR	2.08	0.01	1.95	1.53	1.22
3 Month LIBOR	2.33	--	2.33	1.66	1.29
6 Month LIBOR	2.50	--	2.50	1.81	1.44
1 Year LIBOR	2.77	--	2.76	2.08	1.74
6 Month CD	2.50	--	2.47	1.81	1.43
1 Year CMT	2.36	--	2.32	1.72	1.22
REPO O/N	1.98	0.18	1.68	1.49	1.03
REPO 1Wk	2.03	0.03	1.78	1.47	1.19
CoF Federal	1.877	--	1.811	1.506	1.302
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	2.29	2.10	2.28	Jun-18	1.822
6mo	2.28	2.39	2.28	2.40	Jul-18	1.930
1yr	2.60	2.57	2.54	2.66	Aug-18	1.935
2yr	2.76	2.95	2.81	2.97	Sep-18	1.960
3yr	2.85	3.05	2.96	3.08	Oct-18	2.125
4yr	2.95	3.16	3.06	3.18	Nov-18	2.135
5yr	2.99	3.20	3.10	3.20	Dec-18	2.195
7yr	3.21	3.46	3.32	3.36	Jan-19	2.280
10yr	3.35	3.62	3.46	3.50	Feb-19	2.310
5yr Am	2.90		2.88	3.15	Mar-19	2.350
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
06/18	NAHB Housing Market Index	Jun	70.00	68.00	70.00	--
06/19	Housing Starts	May	1311k	1350k	1287k	1286k
06/19	Building Permits	May	1350k	1301k	1352k	1364k
06/20	MBA Mortgage Applications	6/15	--	5.10%	-1.50%	--
06/20	Current Account Balance	1Q	-\$129.0b	-\$124.1b	-\$128.2b	-\$116.1b
06/20	Existing Home Sales	May	5.52m	5.43m	5.46m	5.45m
06/21	Initial Jobless Claims	6/16	220k	218k	218k	221k
06/21	Continuing Claims	6/9	1710k	1723k	1697k	1701k
06/21	Philadelphia Fed Business Outlook	Jun	29.00	19.90	34.40	--
06/21	FHFA House Price Index MoM	Apr	0.50%	0.10%	0.40%	0.20%
06/21	Bloomberg Economic Expectations	Jun	--	56.00	54.50	--
06/21	Bloomberg Consumer Comfort	6/17	--	56.50	55.80	--
06/21	Leading Index	May	0.40%	0.20%	0.40%	--
06/22	Markit US Manufacturing PMI	Jun P	56.10	--	56.40	--
06/22	Markit US Services PMI	Jun P	56.50	--	56.80	--
06/22	Markit US Composite PMI	Jun P	--	--	56.00	--
06/25	Chicago Fed Nat Activity Index	May	--	--	34.00%	--
06/25	New Home Sales	May	665k	--	662k	--
06/26	S&P CoreLogic CS 20-City YoY NSA	Apr	--	--	6.79%	--
06/26	S&P CoreLogic CS 20-City NSA Index	Apr	--	--	208.62	--
06/26	S&P CoreLogic CS US HPI NSA Index	Apr	--	--	198.94	--
06/26	S&P CoreLogic CS US HPI YoY NSA	Apr	--	--	6.53%	--
06/26	Conf. Board Consumer Confidence	Jun	127.00	--	128.00	--
06/26	Conf. Board Present Situation	Jun	--	--	161.70	--
06/26	Conf. Board Expectations	Jun	--	--	105.60	--
06/27	MBA Mortgage Applications	6/22	--	--	5.10%	--
06/27	Wholesale Inventories MoM	May P	--	--	0.10%	--
06/27	Durable Goods Orders	May P	-0.50%	--	-1.60%	--
06/27	Advance Goods Trade Balance	May	-\$67.5b	--	-\$68.2b	-\$67.3b
06/27	Durables Ex Transportation	May P	0.50%	--	0.90%	--
06/27	Retail Inventories MoM	May	--	--	0.60%	0.50%
06/27	Cap Goods Orders Nondef Ex Air	May P	--	--	1.00%	--
06/27	Cap Goods Ship Nondef Ex Air	May P	--	--	0.90%	--
06/27	Pending Home Sales NSA YoY	May	--	--	0.40%	--
06/28	GDP Annualized QoQ	1Q T	2.20%	--	2.20%	--
06/28	Initial Jobless Claims	6/23	--	--	218k	--
06/28	Continuing Claims	6/16	--	--	1723k	--
06/28	Personal Consumption	1Q T	--	--	1.00%	--
06/28	GDP Price Index	1Q T	1.90%	--	1.90%	--
06/28	Core PCE QoQ	1Q T	--	--	2.30%	--
06/28	Bloomberg Consumer Comfort	6/24	--	--	56.50	--
06/29	PCE Core YoY	May	--	--	1.80%	--
06/29	Personal Income	May	0.40%	--	0.30%	--
06/29	Real Personal Spending	May	--	--	0.40%	--
06/29	PCE Deflator YoY	May	--	--	2.00%	--
06/29	U. of Mich. Current Conditions	Jun F	--	--	117.90	--
06/29	U. of Mich. 1 Yr Inflation	Jun F	--	--	2.90%	--

MBS Prepayments ⁴						
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	14.8	24.9
GN 15y	9.1	10.1	11.9	13.8	12.7	12.6
FH/FN 20y	3.1	6.7	7.7	9.4	11.6	13.8
FH/FN 30y	4.9	5.7	5.9	7.0	9.8	12.6
GN 30y	7.5	7.9	8.8	10.8	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	109.99	(0.64)	111.05	113.33	111.38
Euro	1.16	0.00	1.18	1.19	1.12
Dollar Index	94.79	(0.09)	93.68	93.28	97.56
Major Stock Indices					
Dow Jones	24,507	(669)	25,013	24,782	21,410
S&P 500	2,752.9	(29.5)	2,733.0	2,684.6	2,435.6
NASDAQ	7,736.3	(25)	7,394.0	6,965.4	6,234.0
Commodities					
Gold	1,267.0	(37.0)	1,290.9	1,267.3	1,243.4
Crude Oil	65.85	(1.04)	72.24	58.36	42.53
Natural Gas	2.98	0.01	2.81	2.60	2.89
Wheat	495.5	-6.0	507.3	427.0	464.5
Corn	356.3	-6.8	402.8	351.3	368.8

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

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The data provided in these reports is for informational purposes only and is intended solely for your private use. Information herein is believed to be reliable but The Baker Group LP does not guarantee its completeness or accuracy. Opinions constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 06/21/2018 11:39AM