

Baker Market Update: Week in Review

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The economically erudite among us devote much of their time these days to the discussion of cyclic behavior. Business cycles, price cycles, rate cycles. This week, though, it was another type of cycle that garnered the most attention; the kind that's powered by a V-twin and has belt drive. When Harley-Davidson announced that it would be moving some of its production facilities abroad, you'd have thought Ol' Yeller died. Fingers immediately began pointing to the European Union's recent imposition of retaliatory tariffs as the culprit while critics of the President's trade policies were quick to declare the Milwaukee-based manufacturer as the first casualty of an escalating trade war. Not to worry, though. Just this morning, Treasury Secretary Stephen Mnuchin told a journalist on one of the business shows that we are not in a trade war; we're in a trade dispute. Thank you, Steve, that's good to know.

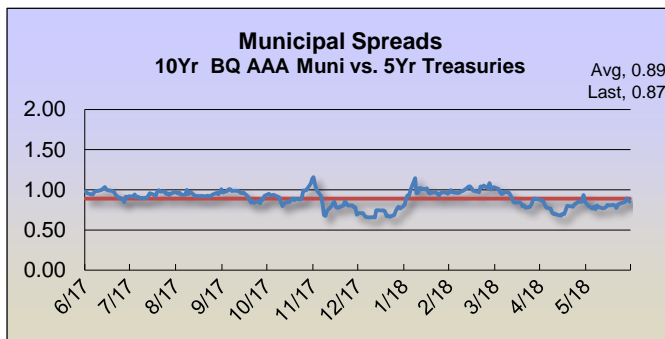
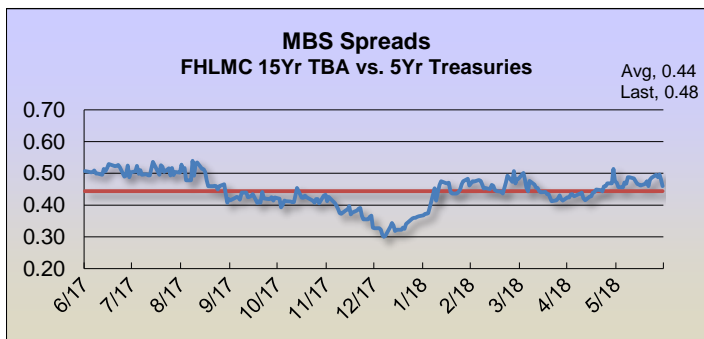
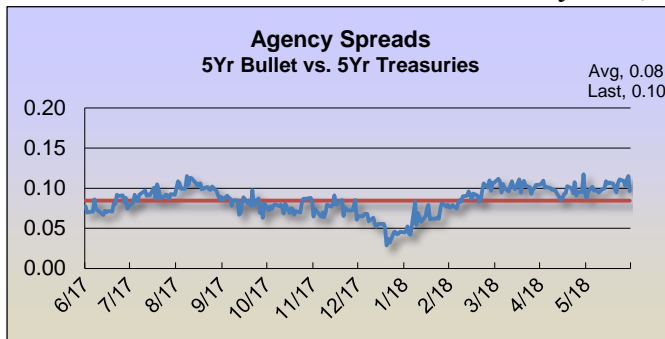
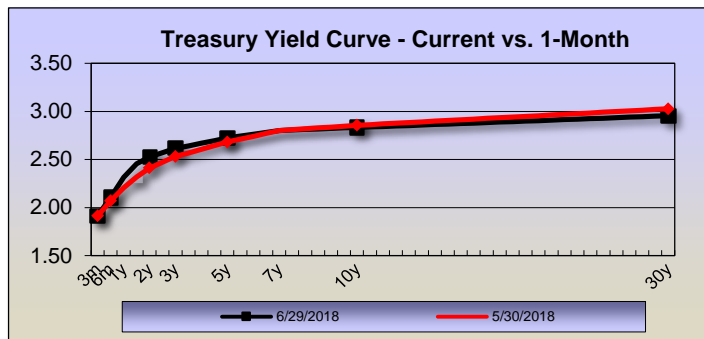
Earlier in the week, before markets were enlightened by Mr. Mnuchin, renewed fears of something more dire than a mere dust-up sent investors to the Treasury market, and that sent the Ten-Year Note yield down to 2.80%. Also today, the European Union and Mario Draghi are disputing Mnuchin's description of the "dispute", by issuing its own statement in which it vowed an unwavering response "to all actions of a clear protectionist nature." So, we may not be in a war, but it sounds like the other side is.

Now, one thing that can no longer be disputed is that inflation is on the rise. Jerome and his merry band have got to be feeling pretty good after the Bureau of Economic Analysis (BEA) announced today that the Personal Consumption Expenditures Price Index, sometimes called the PCE deflator, rose, without food & energy, by 0.2% last month and that brings the year-over-year rate to 2%; the mystical, magical, and arbitrary goal of current monetary policy. What will that do to the Fed's plans for more rate hikes? Not a thing. Something that might, though, are inflationary expectations, or more significantly, the lack of them. Rising prices, like so many things, are primarily driven by a self-fulfilling prophecy of sorts. The anticipation of higher prices in the future works to manifest higher prices in the present. So, inflationary expectations, historically the bane of America's central bankers, are wistfully longed for by Mr. Powell as he laments that those forces have become subdued. One can't help but wonder what Paul Volcker might be thinking about that.

What are consumers thinking about after learning this morning that while Personal Income rose by the expected 0.4%, Personal Spending only rose by a lower-than-expected 0.2%, and *Real* (inflation adjusted) Personal Spending was unchanged? The University of Michigan's Index of Consumer Sentiment reports that they're a little less sentimental than last month as their finalized report showed a dip in the feel-good index to 98.2 from 99.3. But, the sub-survey of 1 year inflationary expectations rose just a touch to 3%. Are you listening, Mr. Powell? In another take on consumer perceptions, the Conference Board announced a similar, slight dip in its overall Confidence Index to 126.4 from 128.8. Why the downturn? Maybe consumers are confusing our dispute with the rest of the world's war.

The Administration was probably pleased to learn this week that, whether affected by our dispute or not, the nation's Trade Deficit narrowed to \$64.8B from \$67.3B. For those that see that as a good thing, credit should be given where credit is due. It will be left up to others to identify where that might be. And where might all the capex spending be these days? Good question. In the Census Bureau's preliminary report for May, Durable Goods orders fell by 0.6% with Capital Goods non-Defense orders falling by 0.2%. Weren't corporate tax cuts supposed to trigger a tidal wave of such expenditures? In other news, Wells Fargo just announced a \$24B stock buyback while yesterday, Walgreens disclosed it would be buying back \$10B worth of its stock and also increasing its dividend pay-out. More things that make you say, "hmmm." But, the final and final downward revision to Q1 GDP from 2.2% to 2% didn't make anybody say anything because the Atlanta Fed estimates Q2 coming in at 4.7%. Woo-hoo!

A new Jobs Report comes out next Friday and no surprises are expected. But, surprises are called that because no one expects them. So, if you decide to celebrate Independence Day by taking your made-in-America motorcycle out for a spin, wear a helmet. 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	1.91	0.00	1.88	1.38	1.02	2yr	2.59	2.79	2.30	2.44	26.00	2Yr	1.94	1.94	1.94	-
6mo	2.10	0.02	2.03	1.53	1.13	3yr	2.65	2.86	2.51	2.67	32.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.31	(0.01)	2.16	1.74	1.22	5yr	2.84	2.89	2.80	2.98	45.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.52	(0.02)	2.32	1.89	1.37	7yr	2.96	2.89	3.14	3.34	48.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.61	(0.03)	2.43	1.97	1.53	10yr	3.12	2.92	3.46	3.68	73.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.72	(0.05)	2.58	2.21	1.85	15yr	3.26	2.95	3.75	3.99	94.00	July TBA MBS				
7yr	2.80	(0.05)	2.72	2.33	2.10	20yr	3.40	2.95	3.95	4.20	91.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.83	(0.06)	2.78	2.41	2.27	25yr	3.55	2.94	4.03	4.29	93.00	2.00	3.17	5.0y		
30yr	2.95	(0.09)	2.98	2.74	2.81	30yr		2.92	4.12	4.38	95.00	2.50	3.07	5.3y		
												3.00	3.10	5.1y	3.41	9.8y
												3.50	2.98	2.9y	3.56	9.0y
												4.00			3.65	7.3y
												4.50			3.65	6.1y

* 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	--	2.25	2.00	1.75
2ndary Discount	3.00	--	2.75	2.50	2.25
Prime Rate	5.00	--	4.75	4.50	4.25
Sec. O.N. Finance	1.93				
1 Month LIBOR	2.09	--	1.98	1.57	1.23
3 Month LIBOR	2.34	--	2.32	1.69	1.30
6 Month LIBOR	2.50	--	2.48	1.84	1.45
1 Year LIBOR	2.76	--	2.73	2.11	1.74
6 Month CD	2.50	--	2.42	1.82	1.43
1 Year CMT	2.33	--	2.27	1.76	1.21
REPO O/N	2.30	0.49	1.75	1.48	1.20
REPO 1Wk	1.99	--	1.78	1.48	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	2.27	2.08	2.28	Jun-18	1.820
6mo	2.27	2.38	2.27	2.39	Jul-18	1.920
1yr	2.59	2.56	2.54	2.66	Aug-18	1.925
2yr	2.75	2.92	2.79	2.95	Sep-18	1.950
3yr	2.85	3.04	2.94	3.06	Oct-18	2.100
4yr	2.92	3.12	3.02	3.14	Nov-18	2.110
5yr	2.97	3.17	3.06	3.17	Dec-18	2.165
7yr	3.18	3.42	3.28	3.32	Jan-19	2.250
10yr	3.30	3.57	3.40	3.44	Feb-19	2.275
5yr Am	2.88		2.88	3.12	Mar-19	2.315
10yr Am	3.18		3.22	3.39	Apr-19	2.385

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
06/25	Chicago Fed Nat Activity Index	May	30.00%	-15.00%	34.00%	42.00%
06/25	New Home Sales	May	667k	689k	662k	646k
06/25	Dallas Fed Manf. Activity	Jun	24.90	36.50	26.80	--
06/26	S&P CoreLogic CS 20-City YoY NSA	Apr	6.80%	6.56%	6.79%	6.73%
06/26	S&P CoreLogic CS US HPI YoY NSA	Apr	--	6.41%	6.53%	6.49%
06/26	Conf. Board Consumer Confidence	Jun	128.00	126.40	128.00	128.80
06/26	Conf. Board Present Situation	Jun	--	161.10	161.70	161.20
06/27	MBA Mortgage Applications	6/22	--	-4.90%	5.10%	--
06/27	Advance Goods Trade Balance	May	-\$69.0b	-\$64.8b	-\$68.2b	-\$67.3b
06/27	Wholesale Inventories MoM	May P	0.20%	0.50%	0.10%	--
06/27	Durables Ex Transportation	May P	0.50%	-0.30%	0.90%	1.90%
06/27	Cap Goods Ship Nondef Ex Air	May P	0.30%	-0.10%	0.90%	1.00%
06/27	Pending Home Sales NSA YoY	May	--	-2.80%	0.40%	0.30%
06/28	Initial Jobless Claims	6/23	220k	227k	218k	--
06/28	Continuing Claims	6/16	1717k	1705k	1723k	1726k
06/28	GDP Annualized QoQ	1Q T	2.20%	2.00%	2.20%	--
06/28	Personal Consumption	1Q T	1.00%	0.90%	1.00%	--
06/28	GDP Price Index	1Q T	1.90%	2.20%	1.90%	--
06/28	Core PCE QoQ	1Q T	--	2.30%	2.30%	--
06/28	Bloomberg Consumer Comfort	6/24	--	57.30	56.50	--
06/29	Personal Income	May	0.40%	0.40%	0.30%	0.20%
06/29	Real Personal Spending	May	0.20%	0.00%	0.40%	0.30%
06/29	PCE Deflator YoY	May	2.20%	2.30%	2.00%	--
06/29	PCE Core YoY	May	1.90%	2.00%	1.80%	--
06/29	Chicago Purchasing Manager	Jun	60.00	64.10	62.70	--
06/29	U. of Mich. Current Conditions	Jun F	--	116.50	117.90	--
06/29	U. of Mich. 1 Yr Inflation	Jun F	--	3.00%	2.90%	--
07/02	Markit US Manufacturing PMI	Jun F	54.70	--	54.60	--
07/02	ISM Manufacturing	Jun	58.20	--	58.70	--
07/02	ISM Employment	Jun	--	--	56.30	--
07/02	ISM Prices Paid	Jun	74.70	--	79.50	--
07/02	ISM New Orders	Jun	--	--	63.70	--
07/03	Factory Orders Ex Trans	May	--	--	0.40%	--
07/05	Challenger Job Cuts YoY	Jun	--	--	-4.80%	--
07/05	ADP Employment Change	Jun	190k	--	178k	--
07/05	Markit US Composite PMI	Jun F	--	--	56.00	--
07/05	ISM Non-Manf. Composite	Jun	58.20	--	58.60	--
07/06	Trade Balance	May	-\$43.9b	--	-\$46.2b	--
07/06	Change in Nonfarm Payrolls	Jun	200k	--	223k	--
07/06	Two-Month Payroll Net Revision	Jun	--	--	15k	--
07/06	Change in Private Payrolls	Jun	190k	--	218k	--
07/06	Change in Manufact. Payrolls	Jun	13k	--	18k	--
07/06	Unemployment Rate	Jun	3.80%	--	3.80%	--
07/06	Underemployment Rate	Jun	--	--	7.60%	--
07/06	Average Hourly Earnings YoY	Jun	2.80%	--	2.70%	--
07/06	Average Weekly Hours All Employees	Jun	34.50	--	34.50	--
07/06	Labor Force Participation Rate	Jun	--	--	62.70%	--

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	11.5	12.1	17.5	17.8	21.9
FH/FN 15y	7.5	8.2	8.9	11.2	14.9	24.9
GN 15y	9.1	10.1	12.4	14.5	14.1	13.8
FH/FN 20y	3.1	6.8	7.8	9.6	12.3	14.3
FH/FN 30y	4.9	5.7	6.1	7.2	10.1	13.1
GN 30y	7.5	7.9	8.9	11.1	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	110.75	0.78	108.77	112.69	112.18
Euro	1.17	0.00	1.15	1.20	1.14
Dollar Index	94.67	0.15	94.82	92.12	95.63
Major Stock Indices					
Dow Jones	24,483	(98)	24,361	24,719	21,287
S&P 500	2,739.1	(15.7)	2,689.9	2,673.6	2,419.7
NASDAQ	7,568.1	(125)	7,396.6	6,903.4	6,144.4
Commodities					
Gold	1,252.6	(14.8)	1,299.0	1,309.3	1,245.8
Crude Oil	74.14	5.56	66.73	60.42	44.93
Natural Gas	2.92	(0.03)	2.88	2.95	3.04
Wheat	495.3	4.0	536.5	427.0	480.3
Corn	350.8	-6.5	400.0	350.8	359.8

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	

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