

Baker Market Update: Week in Review

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Betting on sports is no longer against the rules, but swimsuits at the Miss America Pageant are. Things have a way of changing. It's not much different with investors' appetite for risk; that has a way of changing, too. Not much more than a week ago, the unpalatable Italian situation along with trade war concerns drove Ten-Year yields below 2.80%. Those fears proved to be short-lived as, in recent days, renewed risk consumption pushed that yield back to the 3% threshold. As the G-7 Summit gets stirred up today, so does the queasiness surrounding the imposition of tariffs and who might, or might not, be receiving a Trump waiver. So far this morning, market behavior seems to reflect uncertainty over, well, uncertainty. Sometimes it's hard to know just what to be upset about.

The Atlanta Fed, keeper of the GDPNow forecasting model, doesn't appear to be upset by much at all as this week's update puts its Q2 growth estimate at 4.5%. As the sugary surge of debt-financed tax cuts floods the economy's bloodstream, the big question will be how long those glucose levels can, or should, be maintained. And while the FOMC might have a different nutritionist, too much glucose can lead to macro-economic diabetes; also known as too much inflation.

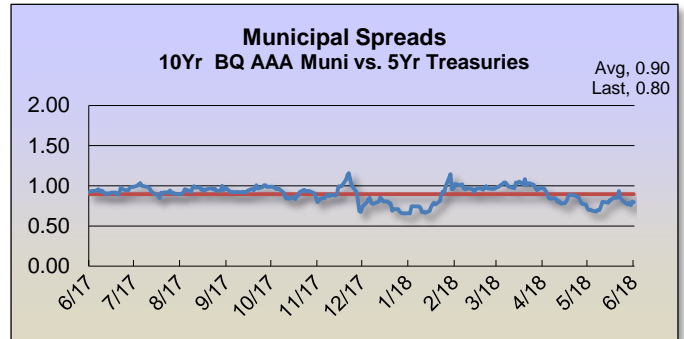
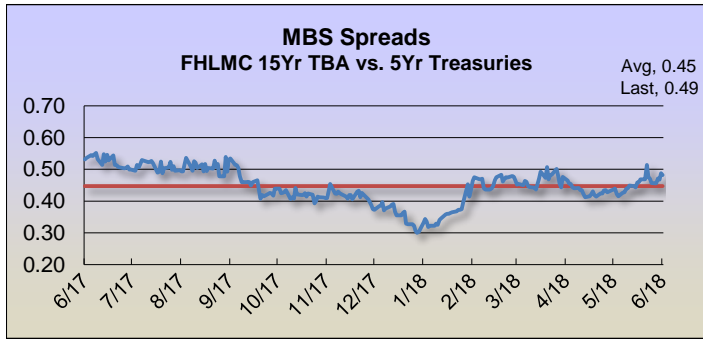
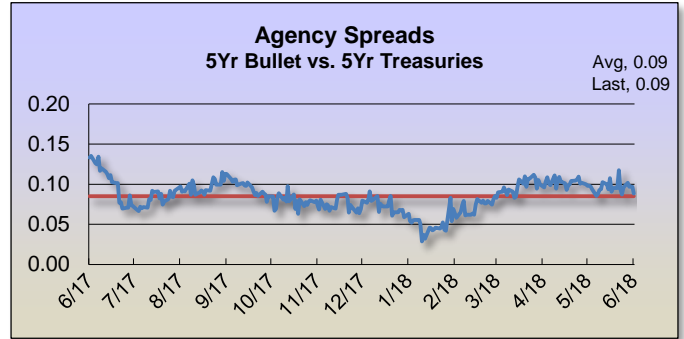
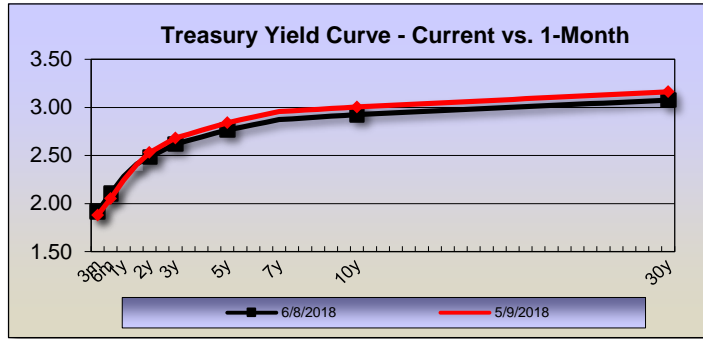
Those forces do not appear to be present in this week's report of a decline of 0.8% in April's Factory Orders. Without Transportation inputs, that measure managed a 0.4% rise. It was much the same with Durable Goods Orders as they fell 1.6% but managed a 0.9% increase net of Transportation components. Next in the order of Orders comes Capital Goods non-Defense Aircraft and Parts. That's getting pretty granular, like sugar, and maybe that's why they recorded a 1.0% gain.

On the heels of last week's Jobs Report, the Bureau of Labor Statistics came out this Tuesday with its Job Openings and Labor Turnover Survey (JOLTS). The big attention grabber there is that the number of job openings now exceeds the number of people looking for jobs. Quite a contrast from the dark days of the financial crisis when one opening existed for every six people looking for one. Apart from the tight-as-a-drum conditions portrayed by those numbers, the paucity of those with desirable skills has created an even tighter market. Is that why Q1 Unit Labor Costs, more of an "all-in" compensation measure than hourly earnings, rose by a higher-than-expected 2.9%? Maybe, but one wonders why it isn't even higher with the Unemployment Rate practically at a 50-year low. Unfortunately, gains in employment haven't been matched by gains in output as Nonfarm Productivity only managed a 0.4% rise during the year's first quarter.

America's households, on the other hand, surpassed the \$100 trillion Net Worth mark for the first time ever in Q1 as asset inflation worked its magic; especially with the values of households' houses. Reminding those households that wealth is not the same thing as income would probably fall on deaf ears. That little factoid might be a topic for discussion when the Fed meets next week to once again raise the target for Fed Funds. The Implied Probability of the marketplace puts that "probability" at 100%, and that's pretty probable.

Less probable are what kind of new trade relationships may result from the G-7 discussions, not only with the European Union, but also with our North American neighbors. One presumes our discussions with the Chinese continue as an aside. As another aside, our Trade Imbalance narrowed a bit last month from a revised \$47.2B deficit to a \$46.2 shortfall and more of that is desired by the Trump Administration.

Next week, the yo-yo risk diet of investors worldwide will be influenced by not only the outcome of the Fed's enclave, but also new reports for inflation via CPI and PPI. The markets are expecting significant increases in both measures along with a high-calorie Retail Sales report. Now that Miss America is dropping the swimsuit competition, counting those calories may not matter as much as it used to. 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	1.92	0.01	1.86	1.28	0.99	2yr	2.56	2.77	2.37	2.52	29.00	2Yr	1.94	1.94	1.94	-
6mo	2.10	0.01	2.03	1.44	1.11	3yr	2.66	2.86	2.52	2.68	35.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.28	0.02	2.24	1.66	1.18	5yr	2.87	2.91	2.79	2.97	48.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.49	0.01	2.51	1.80	1.32	7yr	3.02	2.94	3.14	3.34	54.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.62	0.02	2.65	1.91	1.46	10yr	3.21	2.99	3.44	3.67	70.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.77	0.02	2.82	2.14	1.75	15yr	3.32	3.04	3.77	4.01	89.00	July TBA MBS				
7yr	2.87	0.01	2.93	2.29	2.00	20yr	3.42	3.04	4.00	4.26	78.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.93	0.02	2.98	2.38	2.19	25yr	3.52	3.03	4.09	4.35	80.00	2.00	3.21	5.0y		
30yr	3.08	0.02	3.13	2.77	2.85	30yr		3.01	4.17	4.44	82.00	2.50	3.15	5.3y		
												3.00	3.18	5.1y	3.48	9.9y
												3.50	3.06	2.9y	3.62	9.0y
												4.00			3.70	7.3y
												4.50			3.69	6.2y

* Interpolated

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	1.71				
1 Month LIBOR	2.05	0.05	1.93	1.43	1.10
3 Month LIBOR	2.33	--	2.37	1.54	1.22
6 Month LIBOR	2.49	0.02	2.52	1.72	1.41
1 Year LIBOR	2.75	0.04	2.78	2.00	1.72
6 Month CD	2.48	0.04	2.50	1.71	1.57
1 Year CMT	2.31	0.08	2.25	1.67	1.17
REPO O/N	1.76	--	1.77	1.10	0.99
REPO 1Wk	1.92	0.14	1.78	1.34	1.08
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	2.13	2.28	2.09	2.26	Jun-18	1.820
6mo	2.29	2.40	2.24	2.41	Jul-18	1.910
1yr	2.57	2.55	2.47	2.61	Aug-18	1.915
2yr	2.70	2.87	2.72	2.90	Sep-18	1.935
3yr	2.82	3.00	2.90	3.03	Oct-18	2.085
4yr	2.92	3.12	3.01	3.14	Nov-18	2.100
5yr	2.97	3.19	3.07	3.17	Dec-18	2.150
7yr	3.20	3.45	3.29	3.33	Jan-19	2.230
10yr	3.39	3.67	3.48	3.52	Feb-19	2.250
5yr Am	2.86		2.88	3.11	Mar-19	2.290
10yr Am	3.21		3.22	3.42	Apr-19	2.365

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
06/04	Factory Orders Ex Trans	Apr	--	0.40%	0.30%	0.50%
06/04	Durables Ex Transportation	Apr F	--	0.90%	0.90%	--
06/04	Cap Goods Orders Nondef Ex Air	Apr F	--	1.00%	1.00%	--
06/04	Cap Goods Ship Nondef Ex Air	Apr F	--	0.90%	0.80%	--
06/05	Markit US Services PMI	May F	55.70	56.80	55.70	--
06/05	Markit US Composite PMI	May F	--	56.60	55.70	--
06/05	JOLTS Job Openings	Apr	6350	6698	6550	6633
06/05	ISM Non-Manf. Composite	May	57.70	58.60	56.80	--
06/06	MBA Mortgage Applications	6/1	--	4.10%	-2.90%	--
06/06	Nonfarm Productivity	1Q F	0.60%	0.40%	0.70%	--
06/06	Unit Labor Costs	1Q F	2.80%	2.90%	2.70%	--
06/06	Trade Balance	Apr	-\$49.0b	-\$46.2b	-\$49.0b	-\$47.2b
06/07	Initial Jobless Claims	6/2	220k	222k	224k	223k
06/07	Continuing Claims	5/26	1735k	1741k	1726k	1720k
06/07	Bloomberg Consumer Comfort	6/3	--	54.80	55.20	--
06/07	Household Change in Net Worth	1Q	--	\$1028b	\$2076b	\$2474b
06/07	Consumer Credit	Apr	\$14.000b	\$9.262b	\$11.622b	\$12.278b
06/08	Wholesale Inventories MoM	Apr F	0.00%	0.10%	0.00%	--
06/08	Wholesale Trade Sales MoM	Apr	--	0.80%	0.30%	0.40%
06/12	NFIB Small Business Optimism	May	105.00	--	104.80	--
06/12	CPI YoY	May	2.80%	--	2.50%	--
06/12	CPI Ex Food and Energy YoY	May	2.20%	--	2.10%	--
06/12	CPI Index NSA	May	251.48	--	250.55	--
06/12	CPI Core Index SA	May	256.90	--	256.45	--
06/12	Real Avg Weekly Earnings YoY	May	--	--	0.40%	--
06/12	Real Avg Hourly Earning YoY	May	--	--	0.20%	--
06/12	Monthly Budget Statement	May	-\$114.5b	--	\$214.3b	--
06/13	MBA Mortgage Applications	6/8	--	--	4.10%	--
06/13	PPI Final Demand YoY	May	2.90%	--	2.60%	--
06/13	PPI Ex Food and Energy YoY	May	2.30%	--	2.30%	--
06/13	PPI Ex Food, Energy, Trade YoY	May	--	--	2.50%	--
06/13	FOMC Rate Decision (Upper Bound)	6/13	2.00%	--	1.75%	--
06/13	FOMC Rate Decision (Lower Bound)	6/13	1.75%	--	1.50%	--
06/14	Retail Sales Ex Auto and Gas	May	0.30%	--	0.30%	0.30%
06/14	Retail Sales Control Group	May	0.40%	--	0.40%	0.50%
06/14	Import Price Index YoY	May	4.00%	--	3.30%	--
06/14	Export Price Index YoY	May	--	--	3.80%	--
06/14	Initial Jobless Claims	6/9	222k	--	222k	--
06/14	Continuing Claims	6/2	1732k	--	1741k	--
06/14	Bloomberg Consumer Comfort	6/10	--	--	54.80	--
06/14	Business Inventories	Apr	0.30%	--	0.00%	--
06/15	Empire Manufacturing	Jun	18.50	--	20.10	--
06/15	Manufacturing (SIC) Production	May	0.20%	--	0.50%	--
06/15	Capacity Utilization	May	78.10%	--	78.00%	--
06/15	U. of Mich. Current Conditions	Jun P	--	--	111.80	--
06/15	U. of Mich. 1 Yr Inflation	Jun P	--	--	2.80%	--
06/15	Total Net TIC Flows	Apr	--	--	-\$38.5b	--

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	15.1	15.3	16.5
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.4	11.4	12.1	17.3	18.6	21.9
FH/FN 15y	7.5	8.1	8.8	11.1	15.2	25.0
GN 15y	9.1	10.1	11.9	13.9	12.7	12.5
FH/FN 20y	3.1	6.7	7.7	9.5	11.9	13.9
FH/FN 30y	4.9	5.7	5.9	7.1	9.9	12.7
GN 30y	7.5	7.9	8.9	11.0	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	109.42	(0.12)	109.13	113.48	110.02
Euro	1.18	0.01	1.19	1.18	1.12
Dollar Index	93.59	(0.57)	93.12	93.90	96.92
Major Stock Indices					
Dow Jones	25,245	609	24,360	24,329	21,183
S&P 500	2,766.5	31.9	2,671.9	2,651.5	2,433.8
NASDAQ	7,627.4	73	7,266.9	6,840.1	6,321.8
Commodities					
Gold	1,298.5	3.7	1,313.7	1,245.2	1,276.3
Crude Oil	65.27	(0.54)	69.06	57.36	45.64
Natural Gas	2.89	(0.08)	2.73	2.77	3.03
Wheat	519.0	-4.3	517.8	392.0	449.3
Corn	375.8	-15.8	395.5	340.0	385.8

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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