

Baker Market Update: Week in Review

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Can Superman do more push-ups than The Hulk? Could Nolan Ryan strike-out Ted Williams? Is a good Jobs Report more important than a bad trade war? Good questions all, but tough to answer. To begin with, some might wonder how an increase in the Unemployment Rate from 3.8% to 4.0% could be positively perceived. A reasonable question. Thanks to an unexpected, but welcomed, increase in the Labor Force Participation Rate from 62.7% to 62.9%, not even a larger than expected rise of 213k in Non-Farm Payrolls could prevent the rise in the rate of unemployment. A closer look at the Household Survey from the Bureau of Labor Statistics (BLS) tells us how that happens. When the number of unemployed persons rises by 499k but the number of people who are employed only rises by 102k while the labor force expands by 601k, the numerator rises relative to the denominator. *Voila', the rate goes up.* But, just when you think you've got the "S" from the "BLS" all figured out; remember, the survey that produces the Non-Farm Payroll count is different than the one that calculates the Unemployment Rate. Got it?

Financial markets get that a trade war may have begun at midnight last night as U.S. tariffs on a variety of Chinese goods went into effect and were quickly followed by Chinese tariffs on a variety of American products. Ralph Waldo Emerson may not have considered that to be another "shot heard 'round the world" of revolutionary significance, but many are describing these opening trade salvos in those terms. But, domestic equity markets seem to be accentuating the positive of the Jobs Report while eliminating the negative of tariff trepidations. Credit markets, on the other hand, are struggling with how to react.

The good news from the BLS would normally be pushing bond yields higher and prices lower while the economic fallout from trade wars would normally have the opposite effect. But, so far this morning, the Treasury market seems to have high-centered itself and the yield on the Ten-Year is pretty much unchanged in the low 2.80's. So, investors in stocks seem to be unafraid of troubling tariffs and have decided to focus on good jobs data, while credit market participants are trading water and waiting to decide which way to break out.

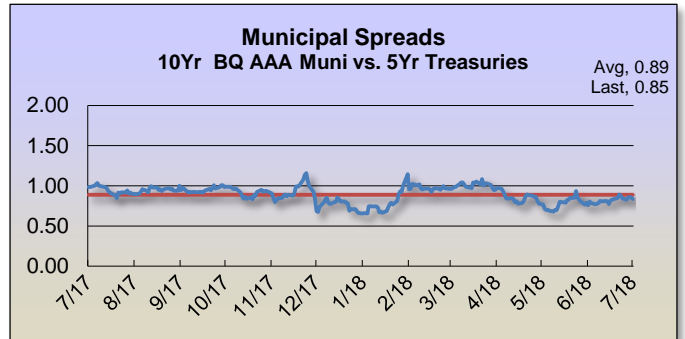
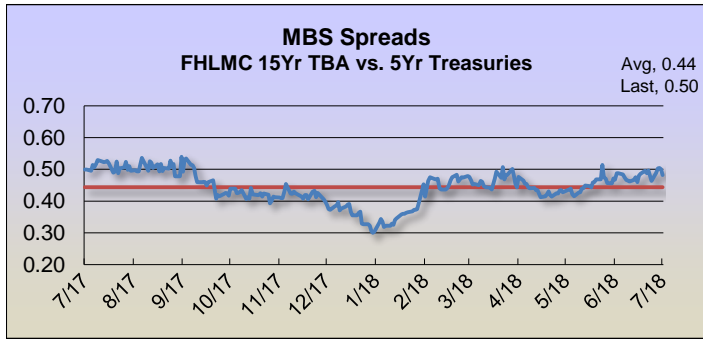
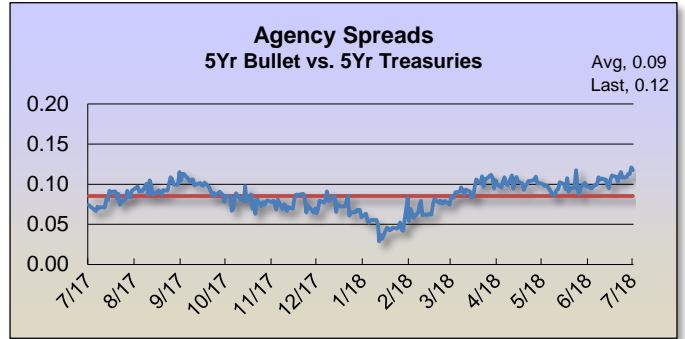
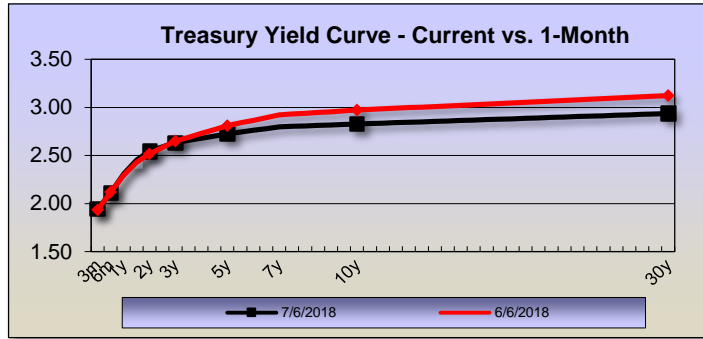
A review of the newly released FOMC minutes probably won't help them very much. Everyone is more or less content to keep on the gradual path of rate hikes (everyone who votes, that is), they feel pretty good about growth potential but are worried about trade war casualties, some are concerned about maintaining 2% inflation now that it's been achieved, and a few others are concerned that if the economy operates at above-capacity, (referring to employment), for too long, inflation could grow to be a problem and asset bubbles could form. This is not the Age of Enlightenment, at least not this week.

If it were, some might question the assumed benefits and desirability of eliminating trade deficits. The deficits exist because American consumers demand more than what they can buy in America, so they buy it from others. If a trade deficit is reduced with one trading partner, the difference will have to be made up with another one. Or, if a price advantage on imported goods goes away, American consumers will then have to pay more for what they want, and Americans tend to not like that. Or, Americans will consume less, and that would be downright *unAmerican*. Nevertheless, one of the goals of tariffing is to reduce that deficit and last month it fell from -\$46.1B to only -\$43.1B.

With the year-over-year growth rate in Americans' Average Hourly Earnings unchanged at 2.7% while inflation measures mount, consumers' hands may be tied. No binding constraints are hindering the manufacturing sector as the often predictive Institute of Supply Management's Manufacturing Index rose unexpectedly, and pleasantly, to 60.2 from 58.7. What trade war?! Besides, with China's economy losing its seemingly bullet-proof armor, Beijing might not have the appetite for a prolonged dispute. The latest "shot heard round the world" may just turn out to be a pop-bottle rocket and a big win for the Administration.

While we'll never know who would win an action-hero push-up contest, it looks like good jobs trump bad tariffs; at least for now.

For a summary of next week's significant economic events, join the Baker Group for coffee on Monday morning. Check your inbox for Latte with Lester and get the week in preview. Until then, 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	1.94	0.02	1.94	1.40	1.03	2yr	2.63	2.81	2.30	2.44	26.00	2Yr	1.94	1.94	1.94	-
6mo	2.11	0.00	2.12	1.58	1.13	3yr	2.67	2.87	2.49	2.65	33.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.31	(0.01)	2.30	1.80	1.22	5yr	2.83	2.89	2.77	2.95	49.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.54	0.01	2.52	1.96	1.40	7yr	2.95	2.89	3.11	3.31	52.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.64	0.01	2.65	2.06	1.58	10yr	3.12	2.91	3.43	3.65	73.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.72	(0.01)	2.81	2.29	1.94	15yr	3.24	2.94	3.71	3.95	94.00	August TBA MBS				
7yr	2.80	(0.03)	2.92	2.41	2.20	20yr	3.35	2.93	3.92	4.17	91.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.83	(0.03)	2.97	2.48	2.37	25yr	3.46	2.91	4.00	4.26	93.00	2.00	3.15	5.0y		
30yr	2.94	(0.05)	3.12	2.81	2.90	30yr		2.89	4.09	4.35	95.00	2.50	3.07	5.3y		
												3.00	3.11	5.1y	3.39	9.7y
												3.50	3.02	2.9y	3.54	8.9y
												4.00			3.63	7.1y
												4.50			3.64	6.0y

* 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	1.97	--			
1 Month LIBOR	2.10	--	2.02	1.55	1.22
3 Month LIBOR	2.34	--	2.32	1.70	1.30
6 Month LIBOR	2.52	0.02	2.48	1.87	1.46
1 Year LIBOR	2.78	0.02	2.74	2.15	1.75
6 Month CD	2.50	--	2.45	1.84	1.39
1 Year CMT	2.32	--	2.32	1.80	1.24
REPO O/N	1.97	--	1.75	1.35	1.04
REPO 1Wk	1.99	--	1.78	1.46	1.23
CoF Federal	1.877	--	1.811	1.506	1.302
11th D. CoF (May)	0.885	--	0.895	0.746	0.648

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	2.15	2.32	2.13	2.28	Jul-18	1.912
6mo	2.28	2.39	2.28	2.41	Aug-18	1.920
1yr	2.59	2.56	2.57	2.69	Sep-18	1.945
2yr	2.77	2.94	2.81	2.97	Oct-18	2.115
3yr	2.86	3.04	2.96	3.07	Nov-18	2.125
4yr	2.92	3.12	3.03	3.14	Dec-18	2.180
5yr	2.96	3.15	3.06	3.15	Jan-19	2.275
7yr	3.16	3.39	3.26	3.29	Feb-19	2.295
10yr	3.30	3.56	3.40	3.43	Mar-19	2.335
5yr Am	2.88		2.88	3.12	Apr-19	2.410
10yr Am	3.17		3.22	3.37	May-19	2.440

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
07/02	Markit US Manufacturing PMI	Jun F	54.60	55.40	54.60	--
07/02	Construction Spending MoM	May	0.50%	0.40%	1.80%	0.90%
07/02	ISM Manufacturing	Jun	58.50	60.20	58.70	--
07/02	ISM Employment	Jun	--	56.00	56.30	--
07/02	ISM Prices Paid	Jun	75.00	76.80	79.50	--
07/02	ISM New Orders	Jun	--	63.50	63.70	--
07/03	Factory Orders Ex Trans	May	--	0.70%	0.40%	0.90%
07/03	Durables Ex Transportation	May F	--	0.00%	-0.30%	--
07/03	Cap Goods Ship Nondef Ex Air	May F	--	0.20%	-0.10%	--
07/03	Wards Total Vehicle Sales	Jun	17.00m	17.38m	16.81m	--
07/04	MBA Mortgage Applications	6/29	--	-0.50%	-4.90%	--
07/05	Challenger Job Cuts YoY	Jun	--	19.60%	-4.80%	--
07/05	ADP Employment Change	Jun	190k	177k	178k	189k
07/05	Initial Jobless Claims	6/30	225k	231k	227k	228k
07/05	Continuing Claims	6/23	1718k	1739k	1705k	1707k
07/05	Bloomberg Consumer Comfort	7/1	--	57.60	57.30	--
07/05	Markit US Services PMI	Jun F	56.50	56.50	56.50	--
07/05	Markit US Composite PMI	Jun F	--	56.20	56.00	--
07/05	ISM Non-Manf. Composite	Jun	58.30	59.10	58.60	--
07/05	FOMC Meeting Minutes	6/13	--	--	--	--
07/06	Trade Balance	May	-\$43.6b	-\$43.1b	-\$46.2b	-\$46.1b
07/06	Change in Nonfarm Payrolls	Jun	195k	213k	223k	244k
07/06	Two-Month Payroll Net Revision	Jun	--	37k	15k	--
07/06	Change in Private Payrolls	Jun	190k	202k	218k	239k
07/06	Change in Manufact. Payrolls	Jun	15k	36k	48k	19k
07/06	Unemployment Rate	Jun	0.04	0.04	0.04	--
07/06	Underemployment Rate	Jun	--	7.80%	7.60%	--
07/06	Average Hourly Earnings YoY	Jun	2.80%	2.70%	2.70%	--
07/06	Average Weekly Hours All Employees	Jun	34.50	34.50	34.50	--
07/06	Labor Force Participation Rate	Jun	62.70%	62.90%	62.70%	--
07/10	NFIB Small Business Optimism	Jun	106.20	--	107.80	--
07/10	JOLTS Job Openings	May	--	--	6698.00	--
07/11	PPI Final Demand YoY	Jun	3.10%	--	3.10%	--
07/11	PPI Ex Food and Energy YoY	Jun	2.60%	--	2.40%	--
07/11	PPI Ex Food, Energy, Trade YoY	Jun	--	--	2.60%	--
07/12	Initial Jobless Claims	7/7	226k	--	231k	--
07/12	Continuing Claims	6/30	--	--	1739k	--
07/12	CPI YoY	Jun	2.90%	--	2.80%	--
07/12	CPI Ex Food and Energy YoY	Jun	2.30%	--	2.20%	--
07/12	CPI Index NSA	Jun	252.01	--	251.59	--
07/12	CPI Core Index SA	Jun	257.40	--	256.89	--
07/12	Real Avg Weekly Earnings YoY	Jun	--	--	0.30%	--
07/12	Real Avg Hourly Earning YoY	Jun	--	--	0.00%	--
07/13	Import Price Index YoY	Jun	4.70%	--	4.30%	--
07/13	Export Price Index YoY	Jun	--	--	4.90%	--
07/13	U. of Mich. Current Conditions	Jul P	--	--	116.50	--
07/13	U. of Mich. 1 Yr Inflation	Jul P	--	--	3.00%	--

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	17.4	17.8	21.9
FH/FN 15y	7.5	8.1	8.8	11.2	14.9	24.9
GN 15y	9.1	10.1	12.5	14.6	14.0	13.6
FH/FN 20y	3.1	6.8	7.8	9.9	12.8	14.5
FH/FN 30y	4.9	5.7	6.1	7.2	10.3	13.3
GN 30y	7.5	8.0	9.1	11.3	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	110.48	(0.28)	110.18	113.09	113.22
Euro	1.17	0.01	1.18	1.20	1.14
Dollar Index	93.95	(1.36)	93.61	91.95	95.80
Major Stock Indices					
Dow Jones	24,501	285	25,146	25,296	21,320
S&P 500	2,755.7	39.4	2,772.4	2,743.2	2,409.8
NASDAQ	7,674.5	171	7,689.2	7,136.6	6,089.5
Commodities					
Gold	1,255.5	4.5	1,297.1	1,322.3	1,223.3
Crude Oil	73.52	0.07	64.73	61.44	45.52
Natural Gas	2.85	(0.09)	2.90	2.80	2.89
Wheat	503.0	23.5	519.8	430.8	519.0
Corn	346.0	1.0	378.3	351.3	380.3

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

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