

Baker Market Update: Week in Review

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While President Trump is busy sweet-talking our allies in Europe and the U.K., Fed Chairman Powell might want to think about how he's going to sugar-coat his inflation message to American consumers. The much-desired and long-sought-after condition of rising price levels has now succeeded in eliminating any gains in the purchasing power of those that are compensated on an hourly basis. For the second month in a row, Real Average Hourly Earnings, adjusted for inflation, have been stagnant. So, while headlines herald an ever-soaring stock market and a "booming" domestic economy, the man-on-the-street may still have to do most of his shopping through windows. Not particularly positive for an economy built on consumption.

This may be America, but there are many roads to Rome; if consumers can't up their consumption with more income they can always do it with more debt, and that's what they did last month. The Federal Reserve reported that Consumer Credit rose by \$24.5B, or roughly double what was expected. One should never underestimate Americans' willingness to borrow money. Nor the U.S. Treasury's, for that matter, as growing auction volumes have helped push Two-Year Note yields as high as they've been in two years while the spread between 2's and 10's has narrowed to just 25 basis points. Participants in the Tour de France might hope for a road as flat as our yield curve.

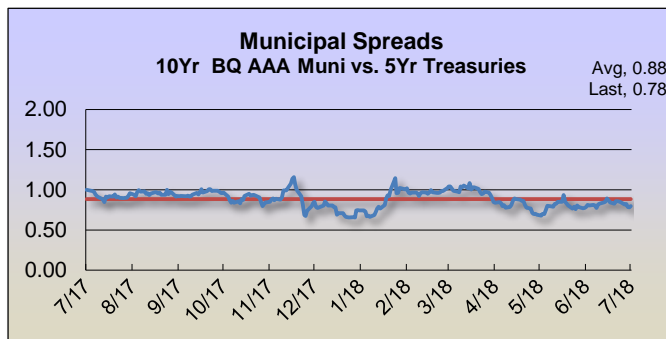
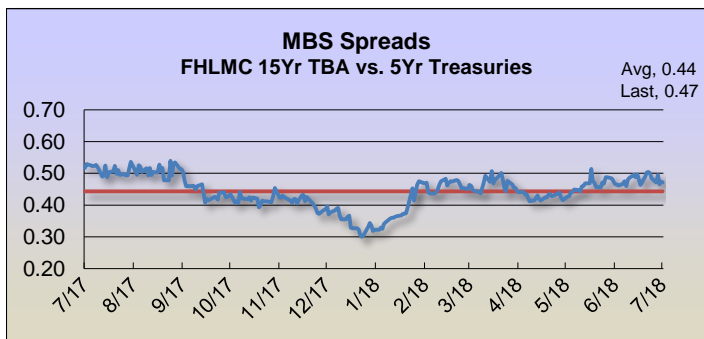
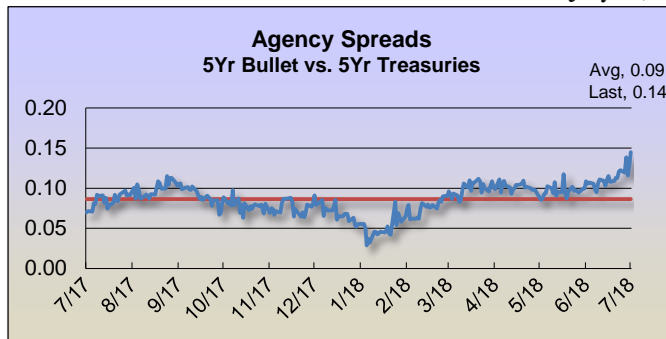
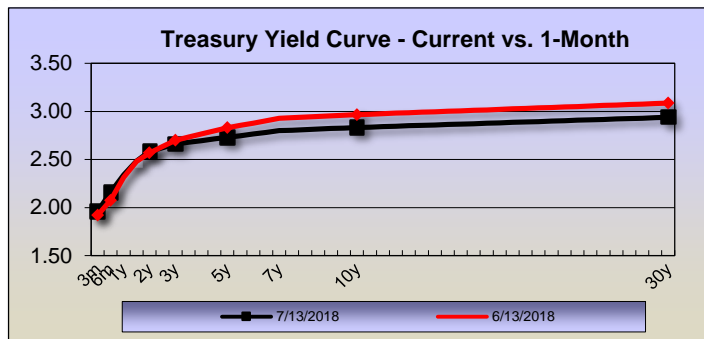
Those that possess conventional wisdom continue to tell us that rising auction volumes *should* result in higher yields as inflation-sensitive bidders *should* want to be more highly compensated for their risk. Well, that conventional wisdom appears to be something closer to conventional folly as the 3% result of May's Ten-Year auction became 2.96% in June and now just 2.85% for July. Apparently, risk is in the eye of the policy-maker, not the bond-holder. This will all become much clearer next week when chief policy-maker Jerome Powell heads to Capitol Hill to give his semi-annual testimony to Congress. Since neither Jerome nor his legislative inquisitors are economists, that should go well.

In the meantime, a rousing testimonial from the National Federation of Independent Businesses (NFIB) disclosed that its Small Business Optimism Index belies an underpinning of good feelings among the nation's entrepreneurs. Actually, it slipped a bit from 107.8 to 107.2, but let's not dwell on that; after all, this is called an "optimism index".

When it comes to inflation, an optimistic outlook used to mean that inflationary pressures were abating. Those were the old days. These days, the Central Bank has been, and still is, actively trying to generate a market environment of higher and higher prices. It's working. The Producer Price Index rose by 0.3% in June for a year-over-year growth rate of 3.4%. For those that buy what is produced by others, the Consumer Price Index (CPI) rose by one-tenth last month and 2.9% over the last twelve. Without food & energy, core inflation rose slightly to 2.3% year-over-year. Good news for Jerome, not so good for everyone else.

If you are consuming things that are not made in the United States, the news is a little better. The Bureau of Labor Statistics reported yesterday that the Price Index of Imports fell, significantly and unexpectedly by 0.4% last month with the year-over-year pace declining from 4.6% to 4.3%. If you're selling American products outside of America, prices went the other way. The Export Price Index rose by 0.3% in June with the annual rate jumping to 5.3% from 4.9%. So, we're paying less for stuff we buy from others, and getting paid more for what others buy from us. So, why did the University of Michigan's Index of Consumer Sentiment show a preliminary drop from 98.2 to 97.1? Why did the Current Conditions sub-Index drop to 113.9 from 116.5? Maybe they're the same people who are having a hard time figuring out why this "booming" economy isn't "booming" for them. That may take a lot of sugar-coating from Mr. Powell.

I'll be traveling next week, so we're not going to be having our Monday morning coffee and preview, but, we're still on for lunch next Friday. 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	1.96	0.02	1.93	1.44	1.03	2yr	2.66	2.81	2.23	2.37	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.16	0.05	2.08	1.60	1.13	3yr	2.68	2.86	2.41	2.56	28.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.34	0.03	2.32	1.78	1.20	5yr	2.84	2.87	2.70	2.88	42.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.58	0.04	2.57	2.00	1.37	7yr	2.95	2.88	3.02	3.22	52.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.66	0.03	2.70	2.12	1.54	10yr	3.11	2.90	3.37	3.59	73.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.73	0.01	2.83	2.35	1.89	15yr	3.24	2.93	3.68	3.92	94.00	August TBA MBS				
7yr	2.80	0.01	2.93	2.48	2.16	20yr	3.36	2.93	3.91	4.16	95.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.83	0.01	2.97	2.55	2.35	25yr	3.48	2.92	3.99	4.25	97.00	2.00	3.18	5.0y		
30yr	2.94	0.01	3.09	2.85	2.92	30yr		2.90	4.07	4.34	99.00	2.50	3.07	5.2y		
												3.00	3.10	5.0y	3.40	9.7y
												3.50	2.99	2.9y	3.55	8.9y
												4.00			3.64	7.0y
												4.50			3.65	5.9y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.00	--	2.00	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	1.90				
1 Month LIBOR	2.07	--	2.06	1.56	1.22
3 Month LIBOR	2.34	--	2.34	1.72	1.30
6 Month LIBOR	2.52	--	2.50	1.89	1.46
1 Year LIBOR	2.79	--	2.76	2.17	1.75
6 Month CD	2.51	--	2.49	1.87	1.40
1 Year CMT	2.39	0.07	2.31	1.78	1.21
REPO O/N	1.96	--	1.99	1.58	1.04
REPO 1Wk	1.98	--	2.00	1.46	1.18
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	2.17	2.33	2.15	2.29	Jul-18	1.910
6mo	2.32	2.45	2.32	2.46	Aug-18	1.915
1yr	2.60	2.57	2.57	2.69	Sep-18	1.945
2yr	2.82	2.98	2.84	3.01	Oct-18	2.125
3yr	2.90	3.08	2.98	3.11	Nov-18	2.135
4yr	2.96	3.15	3.05	3.18	Dec-18	2.190
5yr	2.98	3.18	3.06	3.18	Jan-19	2.285
7yr	3.18	3.41	3.27	3.32	Feb-19	2.305
10yr	3.33	3.58	3.40	3.46	Mar-19	2.345
5yr Am	2.92		2.98	3.15	Apr-19	2.425
10yr Am	3.19		3.25	3.40	May-19	2.460

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
07/09	Consumer Credit	May	\$12.000b	\$24.559b	\$9.262b	\$10.273b
07/10	NFIB Small Business Optimism	Jun	106.90	107.20	107.80	--
07/10	JOLTS Job Openings	May	6620.00	6638.00	6698.00	6840.00
07/11	MBA Mortgage Applications	7/6	--	2.50%	-0.50%	--
07/11	PPI Final Demand MoM	Jun	0.20%	0.30%	0.50%	--
07/11	PPI Ex Food and Energy MoM	Jun	0.20%	0.30%	0.30%	--
07/11	PPI Ex Food, Energy, Trade MoM	Jun	0.20%	0.30%	0.10%	--
07/11	PPI Final Demand YoY	Jun	3.10%	3.40%	3.10%	--
07/11	PPI Ex Food and Energy YoY	Jun	2.60%	2.80%	2.40%	--
07/11	PPI Ex Food, Energy, Trade YoY	Jun	--	2.70%	2.60%	--
07/11	Wholesale Inventories MoM	May F	0.50%	0.60%	0.50%	--
07/11	Wholesale Trade Sales MoM	May	0.50%	2.50%	0.80%	1.40%
07/12	Initial Jobless Claims	7/7	225k	214k	234k	232k
07/12	Continuing Claims	6/30	1730k	1739k	1739k	1742k
07/12	CPI YoY	Jun	2.90%	2.90%	2.80%	--
07/12	CPI Ex Food and Energy YoY	Jun	2.30%	2.30%	2.20%	--
07/12	CPI Index NSA	Jun	252.09	251.99	251.59	--
07/12	CPI Core Index SA	Jun	257.36	257.31	256.89	--
07/12	Real Avg Weekly Earnings YoY	Jun	--	0.20%	0.30%	--
07/12	Real Avg Hourly Earning YoY	Jun	--	0.00%	0.00%	--
07/12	Bloomberg Consumer Comfort	7/8	--	58.00	57.60	--
07/12	Monthly Budget Statement	Jun	-\$80.0b	-\$74.9b	-\$90.2b	--
07/13	Import Price Index YoY	Jun	4.60%	4.30%	4.30%	4.50%
07/13	Export Price Index YoY	Jun	--	5.30%	4.90%	--
07/13	U. of Mich. Current Conditions	Jul P	--	113.90	116.50	--
07/13	U. of Mich. 1 Yr Inflation	Jul P	--	2.90%	3.00%	--
07/16	Empire Manufacturing	Jul	20.60	--	25.00	--
07/16	Retail Sales Advance MoM	Jun	0.50%	--	0.80%	--
07/16	Retail Sales Ex Auto MoM	Jun	0.40%	--	0.90%	--
07/16	Retail Sales Ex Auto and Gas	Jun	0.40%	--	0.80%	--
07/16	Retail Sales Control Group	Jun	0.40%	--	0.50%	--
07/16	Business Inventories	May	0.40%	--	0.30%	--
07/17	Industrial Production MoM	Jun	0.50%	--	-0.10%	--
07/17	Manufacturing (SIC) Production	Jun	0.60%	--	-0.70%	--
07/17	Capacity Utilization	Jun	78.20%	--	77.90%	--
07/17	NAHB Housing Market Index	Jul	69.00	--	68.00	--
07/17	Total Net TIC Flows	May	--	--	\$138.7b	--
07/17	Net Long-term TIC Flows	May	--	--	\$93.9b	--
07/18	MBA Mortgage Applications	7/13	--	--	2.50%	--
07/18	Housing Starts	Jun	1320k	--	1350k	--
07/18	Building Permits	Jun	1330k	--	1301k	--
07/19	Initial Jobless Claims	7/14	220k	--	214k	--
07/19	Continuing Claims	7/7	--	--	1739k	--
07/19	Philadelphia Fed Business Outlook	Jul	22.00	--	19.90	--
07/19	Bloomberg Economic Expectations	Jul	--	--	56.00	--
07/19	Bloomberg Consumer Comfort	7/15	--	--	58.00	--
07/19	Leading Index	Jun	0.50%	--	0.20%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.7	13.6	14.5	16.1	23.7	30.7
FH/FN 15y	7.0	6.1	7.9	13.8	15.1	18.4
GN 15y	16.2	12.5	12.4	13.2	13.6	14.6
FH/FN 20y		6.7	8.5	9.2	10.1	12.8
FH/FN 30y	3.1	5.7	3.9	5.7	8.9	14.1
GN 30y	11.1	10.8	12.4	14.6	15.9	16.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.3	11.5	12.1	17.5	17.8	21.9
FH/FN 15y	7.5	8.2	8.9	11.2	14.8	24.0
GN 15y	11.5	10.1	12.6	14.6	14.0	13.7
FH/FN 20y	3.1	6.8	7.9	10.1	13.0	14.6
FH/FN 30y	4.9	5.7	6.2	7.3	10.6	13.6
GN 30y	8.3	8.0	9.1	11.5	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	112.45	1.98	110.34	110.54	113.28
Euro	1.17	(0.01)	1.18	1.23	1.14
Dollar Index	94.84	0.88	93.54	90.97	95.73
Major Stock Indices					
Dow Jones	25,004	547	25,201	25,803	21,553
S&P 500	2,803.3	43.4	2,775.6	2,786.2	2,447.8
NASDAQ	7,840.4	152	7,695.7	7,261.1	6,274.4
Commodities					
Gold	1,242.7	(13.1)	1,296.9	1,334.9	1,217.3
Crude Oil	71.10	(2.70)	66.64	64.30	46.08
Natural Gas	2.77	(0.09)	2.96	3.20	2.96
Wheat	482.5	-21.5	534.5	420.5	522.5
Corn	332.5	-19.3	376.0	346.3	361.0

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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