

Baker Market Update: Week in Preview

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It looks like the little oil leak that the Treasury market was experiencing last Friday hasn't fixed itself over the weekend. Last week closed out with yields inching up slightly on thin volume, but the Ten- Year yield could not breach 2.90%. This morning, that spot on the driveway appears to be getting a little bigger as the inching up of yields looks to be continuing.

Whether or not that leak gets plugged, or gets worse, will no doubt be affected by the anticipation of, and reaction to, the week's data. Barring unforeseen events; a qualifier that is unfulfillable, no surprises are on the horizon. But then, that's why we call them surprises.

Most observers will be surprised if Friday's release of Q2's first GDP estimate comes in anywhere south of 4%. Those lofty estimates have been floating around pretty much since the quarter began, and while that level of growth is welcome, it will most likely be a one-trick-pony fueled by the stimulus of tax-cuts, inventory accumulation, and a soybean export race to beat the tariff deadline. One outlier to the expectation of frothy Q2 results is the New York Fed. It's forecasting model is only looking for about 2.7% and that's a long way from the Atlanta Fed's prediction of 4.5%. They can't both be right.

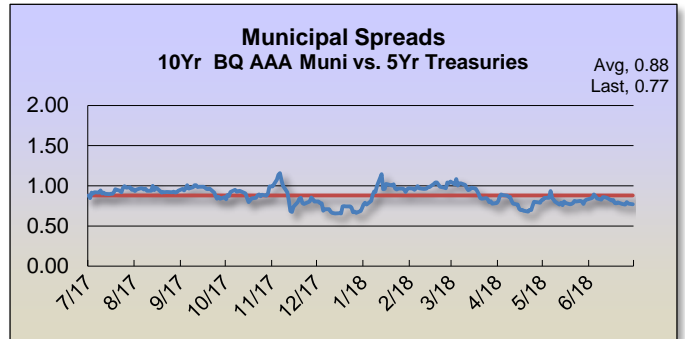
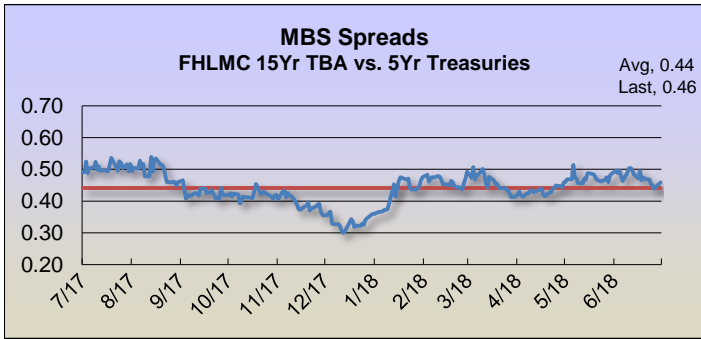
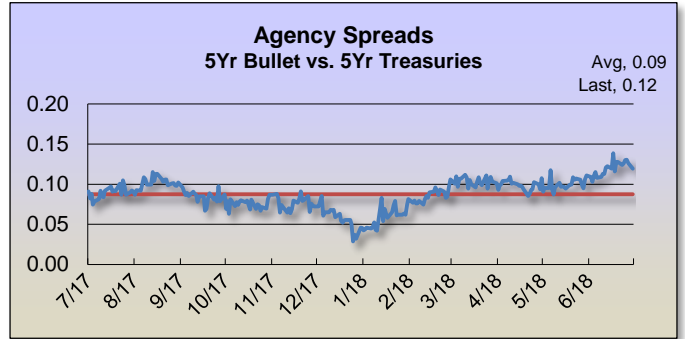
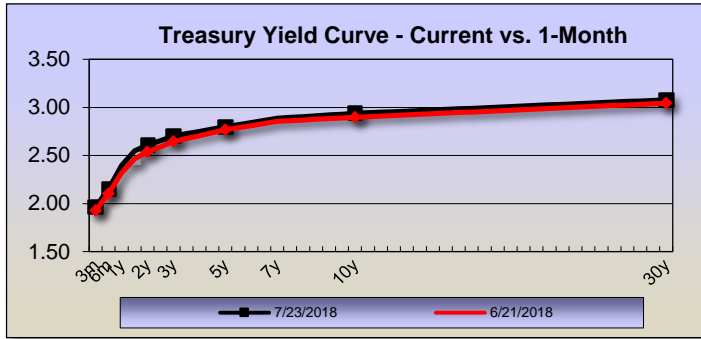
Another central bank, this one belonging to the European Union, is expected to announce this Thursday that it is leaving interest rates, and monetary policy, unchanged. The expected removal of accommodation that, this year, was expected to be the path of European Central Bank (ECB) policy has yet to come to fruition as inflation remains below desired levels and growth remains dismayingly sluggish. Domestically, the FOMC will next meet next Wednesday, and likewise, no surprises are expected. But then, they never are.

Over the weekend, the Finance Minister of France said that it would never, for the time being, engage in trade talks with the U.S. because, to use his words, "we refuse to negotiate with a gun to the head." One is left to wonder where he would prefer the gun to be pointed. In a nutshell, the G-20 meeting in Buenos Aires left trade tariff tensions unresolved. But they still simmer.

Also simmering are the ever- present geopolitical tensions between Iran and the United States. The two sides have been trading incendiary barbs, the best kind of barbs to trade, but with seemingly little influence, so far, on financial markets. The spate of potential market-influencing data has already begun with this morning's release of Existing Home Sales. The slide of 0.6% in that measure surprised analysts that were looking for a slight increase. New Home Sales will come out this Wednesday, and a slight decline is expected. The FHFA House Price Index comes out tomorrow, and we'll see what kind of momentum still resides in residential real estate.

Along with the GDP announcement on Friday, we'll see what kind of momentum consumers have with the final June report of the Consumer Sentiment Index from the University of Michigan. The preliminary report from a couple of weeks ago showed some slight chipping away of consumer's buoyancy, but this final report should indicate that consumers' outlooks remain cheerful and optimistic. Maybe they haven't spotted that oil leak yet.

Have a great week, and 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	1.97	(0.02)	1.91	1.44	1.16	2yr	2.67	2.83	2.20	2.34	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.15	(0.00)	2.09	1.63	1.11	3yr	2.71	2.89	2.39	2.55	26.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.40	0.03	2.32	1.76	1.21	5yr	2.90	2.91	2.67	2.85	36.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.61	0.01	2.54	2.04	1.34	7yr	3.01	2.93	3.00	3.19	52.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.70	0.02	2.64	2.18	1.50	10yr	3.20	2.97	3.35	3.56	73.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.80	0.04	2.77	2.41	1.80	15yr	3.32	3.00	3.70	3.93	96.00	August TBA MBS				
7yr	2.89	0.06	2.85	2.54	2.05	20yr	3.44	3.00	3.93	4.19	95.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.94	0.08	2.90	2.61	2.24	25yr	3.56	2.99	4.01	4.27	97.00	2.00	3.21	5.0y		
30yr	3.08	0.12	3.04	2.89	2.81	30yr		2.98	4.09	4.35	99.00	2.50	3.12	5.2y		
												3.00	3.14	5.0y	3.43	9.7y
												3.50	3.04	2.9y	3.58	8.9y
												4.00			3.67	7.1y
												4.50			3.68	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	--	2.50	2.00	1.75
2ndary Discount	3.00	--	3.00	2.50	2.25
Prime Rate	5.00	--	5.00	4.50	4.25
Sec. O.N. Finance	1.88				
1 Month LIBOR	2.07	--	2.08	1.56	1.23
3 Month LIBOR	2.34	--	2.33	1.74	1.31
6 Month LIBOR	2.52	--	2.50	1.93	1.46
1 Year LIBOR	2.80	0.01	2.77	2.23	1.74
6 Month CD	2.51	--	2.50	1.92	1.40
1 Year CMT	2.41	0.04	2.36	1.79	1.22
REPO O/N	1.95	--	1.92	1.34	1.13
REPO 1Wk	1.98	--	2.05	1.46	1.19
CoF Federal	1.924	--	1.877	1.551	1.354
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	2.19	2.34	2.17	2.29	Jul-18	1.912
6mo	2.32	2.43	2.34	2.45	Aug-18	1.920
1yr	2.63	2.60	2.58	2.70	Sep-18	1.955
2yr	2.82	2.99	2.88	3.01	Oct-18	2.135
3yr	2.89	3.08	3.02	3.10	Nov-18	2.145
4yr	2.95	3.16	3.09	3.16	Dec-18	2.210
5yr	2.99	3.20	3.11	3.18	Jan-19	2.305
7yr	3.20	3.45	3.32	3.32	Feb-19	2.325
10yr	3.34	3.62	3.45	3.46	Mar-19	2.375
5yr Am	2.92		3.03	3.15	Apr-19	2.460
10yr Am	3.20		3.30	3.40	May-19	2.490

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
07/23	Chicago Fed Nat Activity Index	Jun	0.25	0.43	-0.15	-0.45
07/23	Existing Home Sales	Jun	5.44m	--	5.43m	--
07/24	FHFA House Price Index MoM	May	0.40%	--	0.10%	--
07/24	Markit US Manufacturing PMI	Jul P	55.10	--	55.40	--
07/24	Markit US Services PMI	Jul P	56.30	--	56.50	--
07/24	Markit US Composite PMI	Jul P	--	--	56.20	--
07/25	MBA Mortgage Applications	7/20	--	--	-2.50%	--
07/25	New Home Sales	Jun	668k	--	689k	--
07/26	Advance Goods Trade Balance	Jun	-\$67.0b	--	-\$64.8b	-\$64.8b
07/26	Initial Jobless Claims	7/21	215k	--	207k	--
07/26	Continuing Claims	7/14	1735k	--	1751k	--
07/26	Durables Ex Transportation	Jun P	0.50%	--	0.00%	--
07/26	Cap Goods Ship Nondef Ex Air	Jun P	0.40%	--	0.20%	--
07/26	Kansas City Fed Manf. Activity	Jul	25.00	--	28.00	--
07/27	GDP Annualized QoQ	2Q A	4.20%	--	2.00%	--
07/27	Personal Consumption	2Q A	3.00%	--	0.90%	--
07/27	GDP Price Index	2Q A	2.30%	--	2.20%	--
07/27	Core PCE QoQ	2Q A	2.20%	--	2.30%	--
07/27	U. of Mich. Current Conditions	Jul F	--	--	113.90	--
07/27	U. of Mich. 1 Yr Inflation	Jul F	--	--	2.90%	--
07/30	Pending Home Sales NSA YoY	Jun	--	--	-2.80%	--
07/31	Employment Cost Index	2Q	0.70%	--	0.80%	--
07/31	PCE Core YoY	Jun	--	--	2.00%	--
07/31	Personal Income	Jun	0.40%	--	0.40%	--
07/31	PCE Deflator YoY	Jun	--	--	2.30%	--
08/01	ADP Employment Change	Jul	178k	--	177k	--
08/01	Markit US Manufacturing PMI	Jul F	--	--	--	--
08/01	ISM Manufacturing	Jul	59.10	--	60.20	--
08/01	ISM Employment	Jul	--	--	56.00	--
08/01	ISM Prices Paid	Jul	--	--	76.80	--
08/01	ISM New Orders	Jul	--	--	63.50	--
08/01	FOMC Rate Decision (Upper Bound)	8/1	2.00%	--	2.00%	--
08/01	FOMC Rate Decision (Lower Bound)	8/1	1.75%	--	1.75%	--
08/02	Challenger Job Cuts YoY	Jul	--	--	19.60%	--
08/02	Initial Jobless Claims	7/28	--	--	--	--
08/02	Continuing Claims	7/21	--	--	--	--
08/02	Factory Orders Ex Trans	Jun	--	--	0.70%	--
08/03	Change in Nonfarm Payrolls	Jul	195k	--	213k	--
08/03	Two-Month Payroll Net Revision	Jul	--	--	37k	--
08/03	Change in Private Payrolls	Jul	190k	--	202k	--
08/03	Change in Manufact. Payrolls	Jul	--	--	36k	--
08/03	Unemployment Rate	Jul	3.90%	--	4.00%	--
08/03	Underemployment Rate	Jul	--	--	7.80%	--
08/03	Average Hourly Earnings YoY	Jul	--	--	2.70%	--
08/03	Average Weekly Hours All Employees	Jul	34.50	--	34.50	--
08/03	Labor Force Participation Rate	Jul	--	--	62.90%	--
08/03	Markit US Composite PMI	Jul F	--	--	--	--

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	8.3	9.0	11.4	14.2	24.0
GN 15y	11.5	10.1	12.5	14.5	14.0	13.8
FH/FN 20y	3.1	6.7	7.8	9.8	12.8	14.6
FH/FN 30y	4.9	5.7	6.2	7.3	10.4	13.4
GN 30y	8.3	7.9	9.0	11.3	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	111.31	(0.98)	109.77	110.31	111.10
Euro	1.17	(0.00)	1.17	1.23	1.16
Dollar Index	94.49	(0.02)	94.52	90.12	93.86
Major Stock Indices					
Dow Jones	25,058	39	24,581	26,211	21,580
S&P 500	2,801.8	0.5	2,754.9	2,839.1	2,472.5
NASDAQ	7,820.2	(6)	7,692.8	7,460.3	6,387.8
Commodities					
Gold	1,226.7	(13.0)	1,267.4	1,336.7	1,254.9
Crude Oil	68.99	0.93	68.58	64.47	45.77
Natural Gas	2.73	(0.03)	2.95	3.44	2.97
Wheat	518.8	30.3	491.3	421.5	499.3
Corn	356.5	14.8	357.3	351.3	379.8

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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