

## Baker Market Update: Week in Review

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Remember when, as a youngster on the 4<sup>th</sup> of July, how tempting it was to set off the whole string of Black Cats at once? You knew if you did, you'd be treated to fifteen seconds, or so, of intense fire and fury. Flashes of light and billows of smoke against a background of loud bangs! Pretty tempting. You also knew that if you yielded to that temptation, there was a downside; you were out of firecrackers.

This morning's much anticipated release by the Bureau of Economic Analysis (BEA) of its 4.1% initial estimate of Q2 GDP was pretty much in line with market expectations and, as such, has not been met with much reaction. More like those lame-o sparklers than concussive pyrotechnics. Are investors already sensing that the economy is out of firecrackers? They are perhaps realizing that the debt-financed tax cuts are not reoccurring, but rate hikes by the Fed are. Equities are yawning and the slight rise in bond prices is keeping the Ten-Year yield below the symbolic 3% that, earlier in the week, had threatened to be breached. So, Treasury yields are falling after the biggest quarterly growth since Q3 '14? Yes, they are.

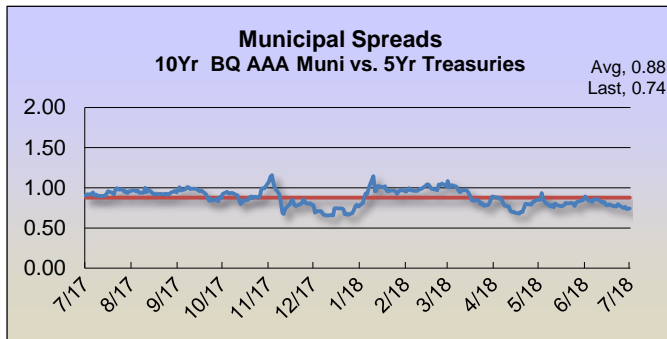
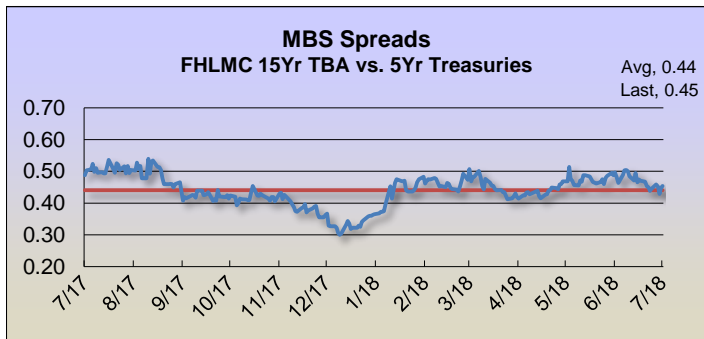
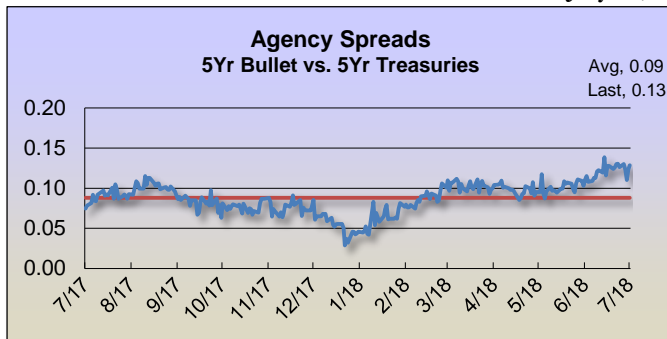
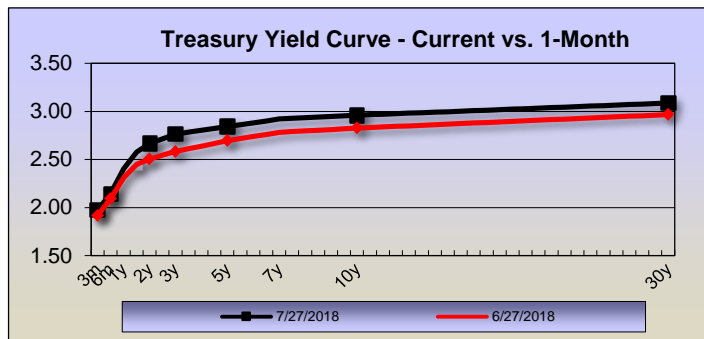
Also falling, are home sales. Existing Home Sales fell by .6% last month while the median sales price increased by 5.2% to a record high \$276,900. For sales, that's the third consecutive monthly drop. In a row. New Home Sales, a much smaller slice of the housing market, fell by 5.3% to an eight-month low, with the median price dropping 4.2% to \$302k. The White House wants the trade deficit to drop, but it didn't. The negative \$64.8B trade imbalance of May became June's \$68.3B imbalance. How about those tariffs!

Consumers don't seem to care too much about tariffs. Personal Consumption, to no one's surprise, was a big growth driver with a 4% jump in Q2. The welcomed return of the consumer was a stark contrast to the Q1 consumption growth rate of just 0.5%. One of the big questions for the rest of this year is whether or not the consumer is back to stay, or just burning off some tax-cut sugar. One might reasonably wonder how a rise of just 2.6% in Real Disposable Income produces a 4% growth in Consumer Spending. A drop of 0.4% in Q2's Personal Savings Rate is at least part of the answer. The other part involves the Monopoly money nature of consumers' debt levels. Not to worry, we'll burn that bridge when we come to it.

And, until they come to it, consumers are still feeling pretty spunky. The University of Michigan's Index of Consumer Sentiment finalized July report was released this morning and consumer moods are brightening still. The overall Sentiment Index rose to 97.9 from 97.1; the Current Conditions sub-index rose to 114.4 from 113.9; and the Expectations component rose to 87.3 from 86.4. Amid all this goose-bump-inducing frisson, consumers are also expecting inflation to rise to 2.9% over the next year and, apparently, are feeling pretty darn good about it.

Also generating some excitement this week was the *rapprochement* between President Trump and the European Union. It looks like we're all friends again and the threat of onerous automobile tariffs won't be happening after all. For now.

For later, the world will be watching to see what kind of fireworks the American economy has left. Wait a minute; don't we buy those from China? Have a great weekend and don't forget to join us for Monday morning coffee. 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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	1.97	(0.00)	1.92	1.42	1.10	2yr	2.74	2.88	2.25	2.40	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.15	0.01	2.10	1.63	1.13	3yr	2.79	2.95	2.45	2.61	26.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.40	0.01	2.31	1.78	1.22	5yr	2.96	2.98	2.73	2.91	35.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.67	0.07	2.51	2.12	1.37	7yr	3.08	2.99	3.05	3.25	54.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.76	0.08	2.58	2.24	1.53	10yr	3.26	3.03	3.42	3.64	72.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.84	0.08	2.70	2.47	1.85	15yr	3.37	3.06	3.79	4.04	99.00	August TBA MBS				
7yr	2.92	0.07	2.78	2.60	2.12	20yr	3.48	3.06	4.05	4.31	99.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.96	0.07	2.83	2.66	2.31	25yr	3.60	3.05	4.12	4.39	101.00	2.00	3.28	5.0y		
30yr	3.09	0.06	2.97	2.91	2.92	30yr		3.04	4.20	4.47	103.00	2.50	3.19	5.3y		
												3.00	3.19	5.1y	3.47	9.8y
												3.50	3.14	2.9y	3.62	9.0y
												4.00			3.72	7.2y
												4.50			3.73	6.0y

\* 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	1.90				
1 Month LIBOR	2.07	--	2.10	1.57	1.23
3 Month LIBOR	2.34	--	2.34	1.77	1.31
6 Month LIBOR	2.53	--	2.50	1.96	1.46
1 Year LIBOR	2.82	--	2.77	2.25	1.74
6 Month CD	2.51	--	2.50	1.94	1.42
1 Year CMT	2.41	0.01	2.33	1.80	1.23
REPO O/N	1.90	--	1.88	1.31	1.07
REPO 1Wk	1.98	--	2.03	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	2.31	2.17	2.29	Jul-18	1.910
6mo	2.34	2.45	2.34	2.46	Aug-18	1.920
1yr	2.67	2.64	2.58	2.71	Sep-18	1.960
2yr	2.89	3.06	2.88	3.09	Oct-18	2.150
3yr	2.98	3.17	3.02	3.20	Nov-18	2.155
4yr	3.04	3.24	3.09	3.26	Dec-18	2.225
5yr	3.08	3.28	3.11	3.29	Jan-19	2.330
7yr	3.28	3.52	3.32	3.43	Feb-19	2.350
10yr	3.42	3.68	3.45	3.56	Mar-19	2.405
5yr Am	3.01		3.03	3.24	Apr-19	2.500
10yr Am	3.29		3.30	3.50	May-19	2.535

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
07/23	Chicago Fed Nat Activity Index	Jun	25.00%	43.00%	<del>45.00%</del>	-45.00%
07/23	Existing Home Sales	Jun	5.44m	5.38m	<del>5.43m</del>	5.41m
07/24	Markit US Manufacturing PMI	Jul P	55.10	55.50	55.40	--
07/24	Markit US Composite PMI	Jul P	--	55.90	56.20	--
07/25	MBA Mortgage Applications	7/20	--	-0.20%	-2.50%	--
07/25	New Home Sales	Jun	668k	631k	<del>689k</del>	666k
07/26	Advance Goods Trade Balance	Jun	-\$67.0b	-\$68.3b	-\$64.8b	--
07/26	Wholesale Inventories MoM	Jun P	0.30%	0.00%	<del>0.60%</del>	0.40%
07/26	Initial Jobless Claims	7/21	215k	217k	<del>207k</del>	208k
07/26	Continuing Claims	7/14	1733k	1745k	<del>1754k</del>	1753k
07/26	Durables Ex Transportation	Jun P	0.50%	0.40%	<del>0.00%</del>	0.30%
07/26	Cap Goods Ship Nondef Ex Air	Jun P	0.40%	1.00%	0.20%	--
07/26	Bloomberg Consumer Comfort	7/22	--	59.00	58.80	--
07/27	GDP Annualized QoQ	2Q A	4.20%	4.10%	<del>2.00%</del>	2.20%
07/27	Personal Consumption	2Q A	3.00%	4.00%	<del>0.90%</del>	0.50%
07/27	GDP Price Index	2Q A	2.30%	3.00%	<del>2.20%</del>	2.00%
07/27	Core PCE QoQ	2Q A	2.20%	2.00%	<del>2.30%</del>	2.20%
07/27	U. of Mich. Current Conditions	Jul F	--	114.40	113.90	--
07/27	U. of Mich. 1 Yr Inflation	Jul F	--	2.90%	2.90%	--
07/30	Pending Home Sales NSA YoY	Jun	--	--	-2.80%	--
07/31	PCE Core YoY	Jun	2.00%	--	2.00%	--
07/31	Personal Income	Jun	0.40%	--	0.40%	--
07/31	Real Personal Spending	Jun	--	--	0.00%	--
07/31	PCE Deflator YoY	Jun	2.40%	--	2.30%	--
07/31	Employment Cost Index	2Q	0.70%	--	0.80%	--
07/31	S&P CoreLogic CS 20-City YoY NSA	May	--	--	6.56%	--
07/31	S&P CoreLogic CS US HPI YoY NSA	May	--	--	6.41%	--
07/31	Chicago Purchasing Manager	Jul	61.80	--	64.10	--
08/01	ADP Employment Change	Jul	180k	--	177k	--
08/01	ISM Manufacturing	Jul	59.20	--	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	Factory Orders Ex Trans	Jun	--	--	0.70%	--
08/03	Trade Balance	Jun	-\$44.6b	--	-\$43.1b	--
08/03	Change in Nonfarm Payrolls	Jul	190k	--	213k	--
08/03	Two-Month Payroll Net Revision	Jul	--	--	37k	--
08/03	Change in Private Payrolls	Jul	185k	--	202k	--
08/03	Change in Manufact. Payrolls	Jul	23k	--	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%	--	2.70%	--
08/03	Average Weekly Hours All Employees	Jul	34.50	--	34.50	--
08/03	Labor Force Participation Rate	Jul	--	--	62.90%	--

MBS Prepayments <sup>4</sup>						
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	12.2	11.3	12.0	17.4	14.9	21.9
FH/FN 15y	7.4	7.9	8.5	11.2	14.1	24.0
GN 15y	11.5	10.1	12.5	14.5	14.0	13.8
FH/FN 20y	#####	6.7	7.8	9.8	12.8	14.6
FH/FN 30y	4.9	5.6	6.0	7.1	10.2	13.1
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
<b>Currencies</b>					
Japanese Yen	111.00	(0.41)	110.26	108.96	111.26
Euro	1.17	(0.01)	1.16	1.24	1.17
Dollar Index	94.66	0.19	95.29	89.07	93.86
<b>Major Stock Indices</b>					
Dow Jones	25,539	481	24,118	26,617	21,797
S&P 500	2,830.7	28.8	2,699.6	2,872.9	2,475.4
NASDAQ	7,813.6	(7)	7,445.1	7,505.8	6,382.2
<b>Commodities</b>					
Gold	1,224.4	(6.7)	1,252.8	1,352.1	1,260.0
Crude Oil	69.23	(1.23)	72.76	66.14	49.04
Natural Gas	2.80	0.04	3.00	3.51	2.97
Wheat	536.0	20.0	479.5	441.0	479.8
Corn	363.0	7.8	352.5	356.5	374.3

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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