

Baker Market Update: Week in Preview

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It's the morning after, kind of, following Friday's news of the biggest growth quarter in almost four years. All news is old news, some say, and that makes last week's Q2 GDP announcement practically ancient history. We'll see this week if the seemingly counter-intuitive response of financial markets to the BEA's announcement of 4.1% Q2 growth rate will continue, be reversed, or be overshadowed by new news.

Credit markets have begun the week by acting more like many expected them to on Friday. Accelerating growth prospects along with accelerating inflation prospects should have sparked a sell-off, but Treasury bonds rallied instead. Unfortunately, there are few believers out there, not linked to the Administration, who truly believe those prospects are likely outcomes; except maybe for the inflation part. Still, bond prices are slipping just a tad, early on, while many wait to see if the psychologically significant 3% yield for Ten-Year Treasuries is reached.

Now that last week's news has reached the rear-view mirror, it seems to be the view through the windshield that's giving bonds a jittery feel this morning. Policy-makers from central banks in America, Japan, and the U.K. are meeting this week, not with each other, to possibly tweak their monetary policies a bit. Markets seem to have concerns about the growing probabilities of more restrictive monetary conditions across the globe. While the global growth story of 2018 hasn't really followed the yellow brick road to the Emerald City, the reflation of many economies has underscored the quandary faced by many of the world's central bankers. Inflation is edging up while growth prospects really aren't.

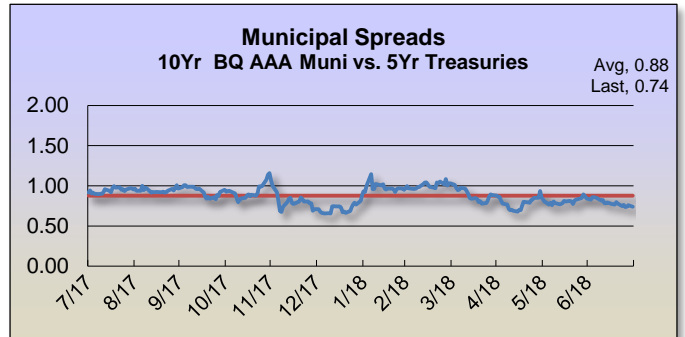
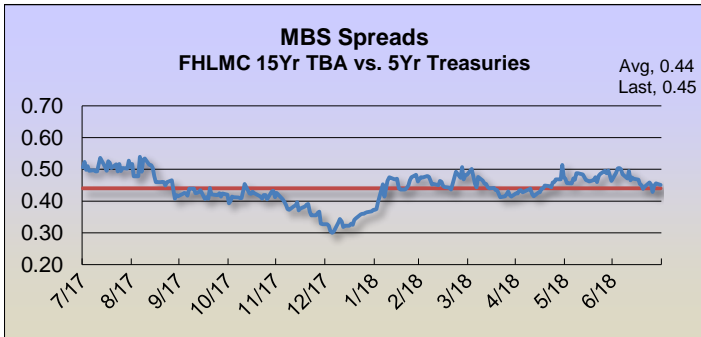
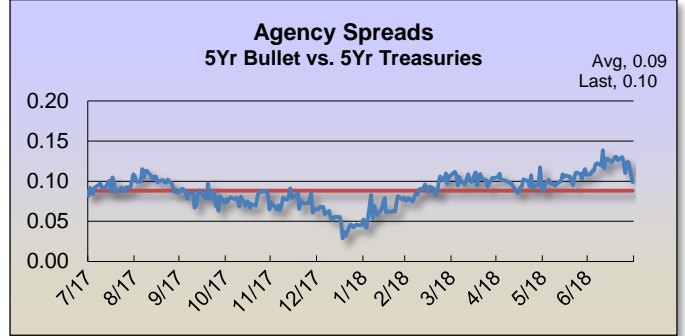
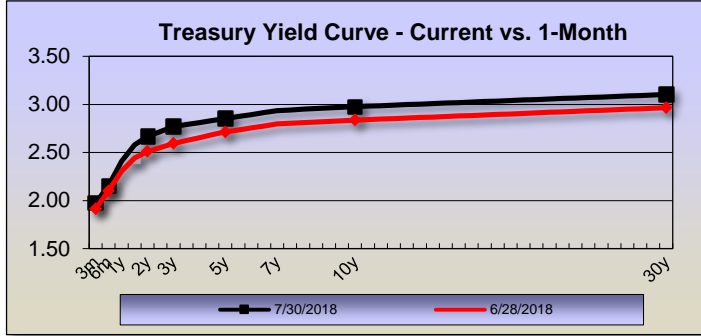
Prospects for anything significant or surprising coming out of this week's FOMC meeting are slim. No rate move will be forthcoming from the Committee, but Chairman Powell will be telling us about how the economy continues to move toward its goals and how any policy adjustments will be driven by the data.

The first bit of data this morning is a welcome boost for the housing market. On the heels of last week's disappointing sales numbers, we learned that Pending Home Sales jumped by 0.9% in June, and that beat the surveys by a bunch. The not-so-good-news is that, year-over-year, that figure is down 4%. Tomorrow, Personal Income & Spending data for last month is due and expectations are for moderate improvements to both. Interestingly, inflation-adjusted spending is expected to see a boost of 0.4% after being unchanged for the last two months. We'll see. We'll also see the inflation measurements themselves, as the Personal Consumption Expenditures Deflator is looking for a slight upward bump of 0.1% and a year-over-year rate of 2.3%. The PCE Core Price index, absent food & energy, is expected to remain right at 2% year-over-year.

Among the avalanche of data this week, we'll see if the Conference Board's Consumer Confidence Index sings the same uplifting song as last week's University of Michigan's Sentiment Survey. Will a new report from the Institute of Supply Management support the contention that business investment is booming and manufacturing is surging? Expectations for a positive read on Factory Orders and Durable Goods will help that notion if they come in at survey levels.

The most heralded headline of this week could likely come from the Bureau of Labor Statistics when it publishes its brand new Employment Report on Friday morning. Experts are looking for the Unemployment Rate to dip back below 4% with new job creation coming in slightly less than 200k. The accompanying wage data will probably be the greatest focus of many, but don't look for any big improvement. Again. Also again, the President has been tweeting. Controversy over renewed government funding that may or may not include a new border wall has made the news, but, like the rest of it, it's already old.

Have a great week, and we'll talk again on Friday.



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	0.01	1.92	1.45	1.08	2yr	2.73	2.89	2.25	2.40	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.16	0.01	2.11	1.66	1.13	3yr	2.80	2.96	2.45	2.61	26.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.41	0.01	2.31	1.78	1.21	5yr	2.98	2.99	2.73	2.91	35.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.67	0.03	2.53	2.13	1.35	7yr	3.09	3.01	3.05	3.25	54.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.77	0.04	2.62	2.26	1.51	10yr	3.23	3.05	3.42	3.64	72.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.85	0.03	2.74	2.51	1.83	15yr	3.41	3.08	3.79	4.04	99.00	August TBA MBS				
7yr	2.94	0.03	2.82	2.65	2.10	20yr	3.58	3.09	4.05	4.31	99.00	Cpn	15Yr -Yld/AL	30Yr -Yld/AL		
10yr	2.98	0.02	2.86	2.72	2.29	25yr	3.75	3.08	4.12	4.39	101.00	2.00	3.30	5.0y		
30yr	3.10	0.01	2.99	2.97	2.90	30yr		3.06	4.20	4.47	103.00	2.50	3.20	5.3y		
												3.00	3.20	5.1y	3.48	9.8y
												3.50	3.15	2.9y	3.64	9.0y
												4.00			3.73	7.3y
												4.50			3.75	6.1y

* 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	2.08	--	2.09	1.57	1.23
3 Month LIBOR	2.34	--	2.33	1.77	1.31
6 Month LIBOR	2.53	--	2.50	1.96	1.45
1 Year LIBOR	2.82	0.02	2.76	2.25	1.73
6 Month CD	2.51	--	2.50	1.96	1.42
1 Year CMT	2.43	0.02	2.33	1.80	1.22
REPO O/N	1.94	0.04	2.11	1.39	1.17
REPO 1Wk	1.98	--	1.99	1.46	1.24
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	1.918
1yr	2.67	2.64	2.58	2.71	Sep-18	1.955
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	2.335
7yr	3.28	3.52	3.32	3.43	Feb-19	2.355
10yr	3.42	3.68	3.45	3.56	Mar-19	2.410
5yr Am	3.01		3.03	3.24	Apr-19	2.505
10yr Am	3.29		3.30	3.50	May-19	2.540

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
07/30	Pending Home Sales NSA YoY	Jun	--	-4.00%	-2.80%	--
07/31	Personal Income	Jun	0.40%	--	0.40%	--
07/31	Real Personal Spending	Jun	0.40%	--	0.00%	--
07/31	PCE Deflator YoY	Jun	2.30%	--	2.30%	--
07/31	PCE Core YoY	Jun	2.00%	--	2.00%	--
07/31	Employment Cost Index	2Q	0.70%	--	0.80%	--
07/31	S&P CoreLogic CS 20-City YoY NSA	May	6.30%	--	6.56%	--
07/31	S&P CoreLogic CS US HPI YoY NSA	May	--	--	6.41%	--
07/31	Conf. Board Consumer Confidence	Jul	126.00	--	126.40	--
07/31	Conf. Board Present Situation	Jul	--	--	161.10	--
07/31	Conf. Board Expectations	Jul	--	--	103.20	--
08/01	ADP Employment Change	Jul	183k	--	177k	--
08/01	Markit US Manufacturing PMI	Jul F	55.50	--	55.50	--
08/01	ISM Manufacturing	Jul	59.30	--	60.20	--
08/01	ISM Employment	Jul	--	--	56.00	--
08/01	ISM Prices Paid	Jul	75.50	--	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	220k	--	217k	--
08/02	Continuing Claims	7/21	1750k	--	1745k	--
08/02	Factory Orders Ex Trans	Jun	--	--	0.70%	--
08/02	Durables Ex Transportation	Jun F	--	--	0.40%	--
08/02	Cap Goods Ship Nondef Ex Air	Jun F	--	--	1.00%	--
08/03	Trade Balance	Jun	-\$46.4b	--	-\$43.1b	--
08/03	Change in Nonfarm Payrolls	Jul	193k	--	213k	--
08/03	Two-Month Payroll Net Revision	Jul	--	--	--	--
08/03	Change in Private Payrolls	Jul	188k	--	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%	--
08/07	JOLTS Job Openings	Jun	--	--	6638.00	--
08/09	Initial Jobless Claims	8/4	--	--	--	--
08/09	Continuing Claims	7/28	--	--	--	--
08/09	PPI Final Demand YoY	Jul	--	--	3.40%	--
08/09	PPI Ex Food and Energy YoY	Jul	--	--	2.80%	--
08/09	PPI Ex Food, Energy, Trade YoY	Jul	--	--	2.70%	--
08/10	CPI YoY	Jul	--	--	2.90%	--
08/10	CPI Ex Food and Energy YoY	Jul	--	--	2.30%	--
08/10	CPI Index NSA	Jul	--	--	251.99	--
08/10	CPI Core Index SA	Jul	--	--	257.31	--
08/10	Real Avg Weekly Earnings YoY	Jul	--	--	0.20%	--
08/10	Real Avg Hourly Earning YoY	Jul	--	--	0.00%	--

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	12.2	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	12.4	14.4	13.8	13.4
FH/FN 20y	0.1	6.7	7.7	9.4	12.1	14.3
FH/FN 30y	4.9	5.6	6.0	7.0	9.9	12.9
GN 30y	8.3	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	111.07	(0.28)	110.90	108.78	110.26
Euro	1.17	0.00	1.16	1.24	1.18
Dollar Index	94.42	(0.21)	94.47	89.16	93.26
Major Stock Indices					
Dow Jones	25,451	393	24,271	26,077	21,830
S&P 500	2,818.8	17.0	2,718.4	2,822.4	2,472.1
NASDAQ	7,737.4	(83)	7,510.3	7,402.5	6,374.7
Commodities					
Gold	1,222.1	(3.5)	1,254.5	1,335.4	1,268.4
Crude Oil	70.21	2.32	74.15	64.50	49.71
Natural Gas	2.78	0.06	2.92	3.20	2.94
Wheat	539.5	25.8	497.5	457.3	481.0
Corn	365.5	8.3	350.3	361.5	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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