

Baker Market Update: Week in Preview

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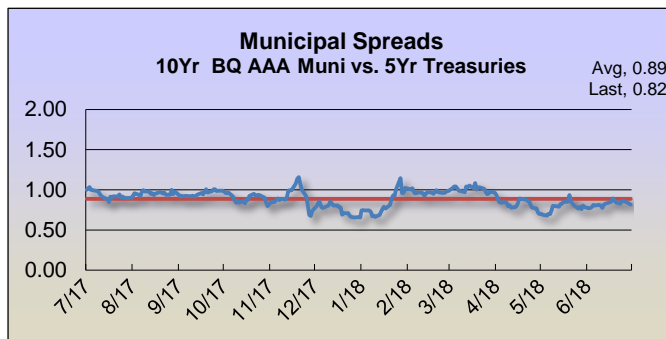
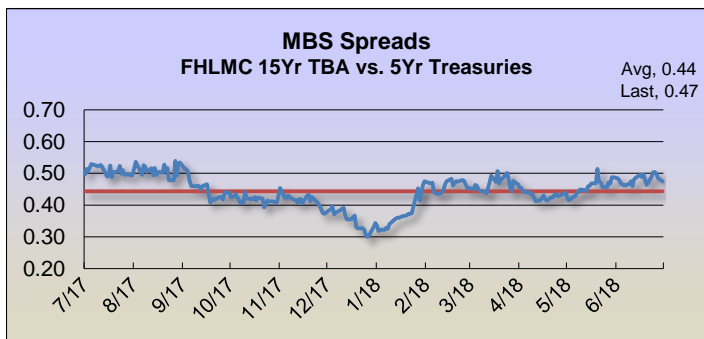
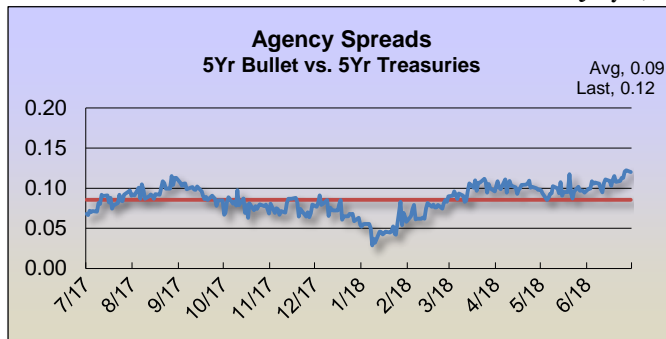
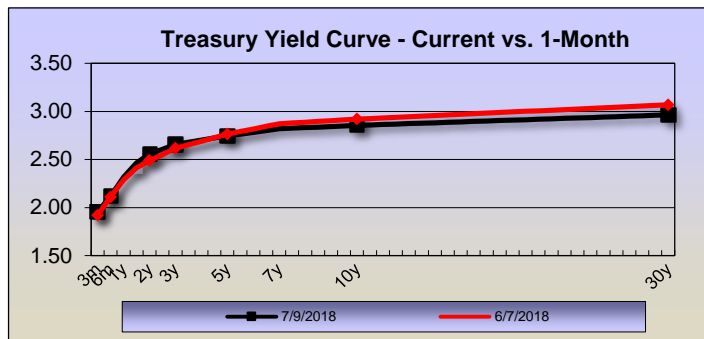
When last we left the Treasury market, it seemed unsure about how to react to last Friday's news events. Would the positive jobs report, a good thing for the economy, induce a sell-off that pushed rates higher and maybe re-steepen the yield curve, or would the instant tariff retaliation by China, an economic negative, result in a rally that would push yields lower? Well, the bond market more or less wrapped up last week with a punt and didn't really go down either path.

Apparently, having had the weekend to mull things over, credit markets appear to be shrugging off concerns about the tit-for-tat trade dispute and are perceiving the Fed's perception that further rate hikes are justified. As such, investors are greeted this morning by slightly higher yields across the curve. And speaking of curves, growing angst over a possible yield curve inversion is garnering more and more attention as the brute-force push of short rates by the central bank has not been shared by the behavior of longer-term investors. As conditions currently stand, only about 30 basis points separate the Ten-Year from the Two-Year. More than one FOMC member has publicly expressed concern about the curve going negative and, more significantly, the recession signals that would emit. For his part, Chairman Powell has tried to assuage those worries by reminding us all that recessions of the past that have followed yield curve inversions have happened because inflation was allowed to get out of control. Mr. Powell has been pretty clear about his intention to avoid that circumstance.

We will all get updated on that situation when new reports on price levels are released via the Producer Price Index on Wednesday followed by the Consumer Price Index the next day. Early market surveys suggest modest increases in each, with the year-over-year "core" rate for CPI perhaps moving up slightly to 2.3%. A concern by many is the lack of inflation-inducing growth in worker compensation and that was once again one of the less shiny measures from last month's jobs numbers. This morning, the Bureau of Labor Statistics follows up last week's labor report with the latest results of its Job Openings and Labor Turnover Survey. Recent reports of higher numbers of job quitters is seen as anecdotal evidence of people feeling more positive and optimistic about better job opportunities.

Feelings and attitudes will also be on display when the National Federation of Independent Businesses reports the latest on its Optimism Index tomorrow, with markets expecting a slight decline in that outcome. Rumbblings about higher borrowing costs may be starting to have a dampening effect on the cheery business outlook. The cheery outlook of consumers will again be measured when the preliminary University of Michigan's Index of Consumer Sentiment comes out on Friday. Markets aren't expecting much change, but consumers can be fickle.

The fickle nature of bond auctions will also be tested this week as the Treasury comes with \$156B worth of new supply that somebody is going to buy. The question is, at what price. Investors saw short-term yields spike a bit higher at last week's bill auctions because of concerns over the mega-supply of new debt and many will be watching the digestive processes at work today. This week will also see auctions for more 3's, 10's, and 30's. So, in the face of a lot of uncertainty, the Treasury remains steadfast; there will be no shortage of American debt. Have a great week, we'll be back for lunch 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	1.96	0.03	1.91	1.43	1.03	2yr	2.64	2.81	2.30	2.44	26.00	2Yr	1.94	1.94	1.94	-
6mo	2.12	0.01	2.11	1.60	1.13	3yr	2.69	2.87	2.48	2.64	33.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.32	(0.00)	2.29	1.78	1.21	5yr	2.86	2.90	2.76	2.94	49.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.56	0.01	2.50	1.97	1.40	7yr	2.97	2.90	3.08	3.28	52.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.66	0.01	2.63	2.08	1.58	10yr	3.14	2.93	3.40	3.62	73.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.74	(0.01)	2.78	2.33	1.95	15yr	3.26	2.96	3.68	3.92	94.00	August TBA MBS				
7yr	2.82	(0.02)	2.90	2.47	2.22	20yr	3.38	2.95	3.89	4.14	91.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.85	(0.02)	2.95	2.55	2.39	25yr	3.49	2.94	3.98	4.23	93.00	2.00	3.16	5.0y		
30yr	2.96	(0.03)	3.09	2.90	2.93	30yr		2.92	4.06	4.32	95.00	2.50	3.09	5.2y		
												3.00	3.12	5.0y	3.40	9.6y
												3.50	3.03	2.9y	3.56	8.9y
												4.00			3.64	7.0y
												4.50			3.64	5.9y

* 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	1.93	--			
1 Month LIBOR	2.09	--	2.03	1.55	1.22
3 Month LIBOR	2.33	--	2.32	1.70	1.30
6 Month LIBOR	2.51	--	2.48	1.87	1.47
1 Year LIBOR	2.77	--	2.74	2.15	1.76
6 Month CD	2.50	--	2.48	1.85	1.39
1 Year CMT	2.34	--	2.32	1.80	1.23
REPO O/N	1.97	--	1.68	1.42	1.02
REPO 1Wk	1.99	--	1.99	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	2.15	2.32	2.13	2.28	Jul-18	1.915
6mo	2.28	2.39	2.28	2.41	Aug-18	1.920
1yr	2.59	2.57	2.57	2.69	Sep-18	1.945
2yr	2.77	2.94	2.81	2.97	Oct-18	2.125
3yr	2.86	3.05	2.97	3.07	Nov-18	2.135
4yr	2.92	3.13	3.04	3.14	Dec-18	2.190
5yr	2.96	3.16	3.06	3.15	Jan-19	2.280
7yr	3.16	3.41	3.27	3.29	Feb-19	2.305
10yr	3.30	3.57	3.41	3.43	Mar-19	2.345
5yr Am	2.88		2.88	3.12	Apr-19	2.420
10yr Am	3.17		3.22	3.37	May-19	2.455

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
07/09	Consumer Credit	May	\$12.000b	--	\$9.262b	--
07/10	NFIB Small Business Optimism	Jun	105.80	--	107.80	--
07/10	JOLTS Job Openings	May	6660.00	--	6698.00	--
07/11	MBA Mortgage Applications	7/6	--	--	-0.50%	--
07/11	PPI Final Demand MoM	Jun	0.20%	--	0.50%	--
07/11	PPI Ex Food and Energy MoM	Jun	0.20%	--	0.30%	--
07/11	PPI Ex Food, Energy, Trade MoM	Jun	0.20%	--	0.10%	--
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%	--
07/11	Wholesale Trade Sales MoM	May	--	--	0.80%	--
07/11	Wholesale Inventories MoM	May F	0.40%	--	0.50%	--
07/12	Initial Jobless Claims	7/7	225k	--	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	252.05	--	251.59	--
07/12	CPI Core Index SA	Jun	257.36	--	256.89	--
07/12	Real Avg Weekly Earnings YoY	Jun	--	--	0.30%	--
07/12	Real Avg Hourly Earning YoY	Jun	--	--	0.00%	--
07/12	Bloomberg Consumer Comfort	7/8	--	--	57.60	--
07/12	Monthly Budget Statement	Jun	-\$80.0b	--	-\$146.8b	--
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. 5-10 Yr Inflation	Jul P	--	--	2.60%	--
07/16	Retail Sales Advance MoM	Jun	0.50%	--	0.80%	--
07/16	Empire Manufacturing	Jul	--	--	25.00	--
07/16	Retail Sales Ex Auto MoM	Jun	0.40%	--	0.90%	--
07/16	Retail Sales Ex Auto and Gas	Jun	--	--	0.80%	--
07/16	Retail Sales Control Group	Jun	--	--	0.50%	--
07/16	Business Inventories	May	0.30%	--	0.30%	--
07/17	Industrial Production MoM	Jun	0.60%	--	-0.10%	--
07/17	Manufacturing (SIC) Production	Jun	--	--	-0.70%	--
07/17	Capacity Utilization	Jun	78.30%	--	77.90%	--
07/17	NAHB Housing Market Index	Jul	--	--	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	--	--	--	--
07/18	Housing Starts	Jun	1320k	--	1350k	--
07/18	Building Permits	Jun	--	--	1301k	--
07/19	Initial Jobless Claims	7/14	--	--	--	--
07/19	Continuing Claims	7/7	--	--	--	--
07/19	Philadelphia Fed Business Outlook	Jul	--	--	19.90	--
07/19	Bloomberg Economic Expectations	Jul	--	--	56.00	--
07/19	Bloomberg Consumer Comfort	7/15	--	--	--	--
07/19	Leading Index	Jun	0.40%	--	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	13.9	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	16.0	16.4
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	14.9	24.9
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	7.2	10.5	13.5
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	110.57	(0.33)	110.03	112.65	114.04
Euro	1.18	0.01	1.18	1.19	1.14
Dollar Index	93.81	(0.66)	93.54	92.53	96.01
Major Stock Indices					
Dow Jones	24,456	240	25,317	25,386	21,414
S&P 500	2,759.8	43.5	2,779.0	2,751.3	2,425.2
NASDAQ	7,688.4	185	7,645.5	7,163.6	6,153.1
Commodities					
Gold	1,264.0	9.5	1,298.1	1,313.7	1,209.7
Crude Oil	73.92	(0.23)	65.74	62.96	44.23
Natural Gas	2.85	(0.08)	2.89	2.92	2.86
Wheat	509.5	12.0	520.0	432.3	515.3
Corn	348.5	-1.8	377.8	349.0	382.3

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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