

Baker Market Update: Week in Review

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In his novel *Foucault's Pendulum*, Italian author Umberto Eco wrote that "I believe that you can reach the point where there is no longer any difference between developing the habit of pretending to believe and developing the habit of believing." Signore Eco wasn't talking about economic fortunes or financial markets when he wrote those words, but their relevance to today's environment might be greater than many would like to admit.

Admittedly, it's hard to know what's going on inside the head of President Trump, but earlier in the week, after predicting that Q3 GDP could very well have a 5% handle, one is left to wonder, is he just pretending to believe that in an attempt to keep everyone's economic morale up, or has he crossed the line into actually believing the things he says? His comments were sandwiched in between reports that Mortgage Applications fell 3% last week (the 4th consecutive decline) and Real Average Hourly Earnings regressed by 0.2%.

And speaking of sandwiches, the new Turkey Melt is all that anyone is talking about today. For investors on the sunny side of the Bosphorus, more dark clouds are threatening the horizon. Already faced with mounting economic challenges, President Trump's early-morning tweet authorizing the doubling of trade tariffs against Turkey, has sent the *lira* into freefall and caused much consternation far beyond the borders of the Ottoman Empire.

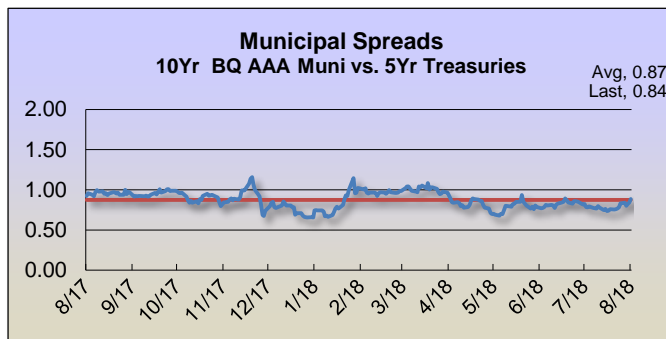
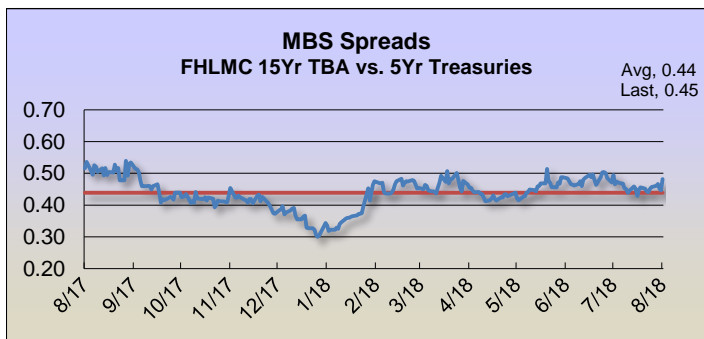
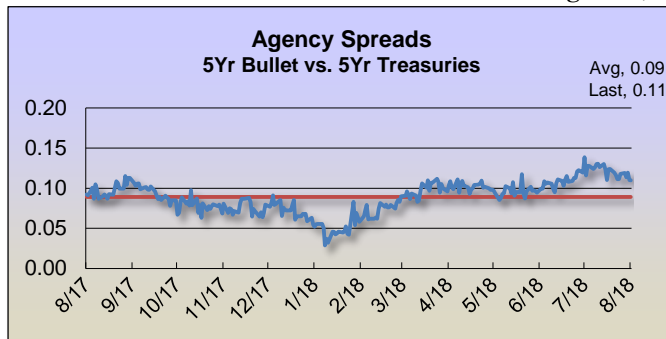
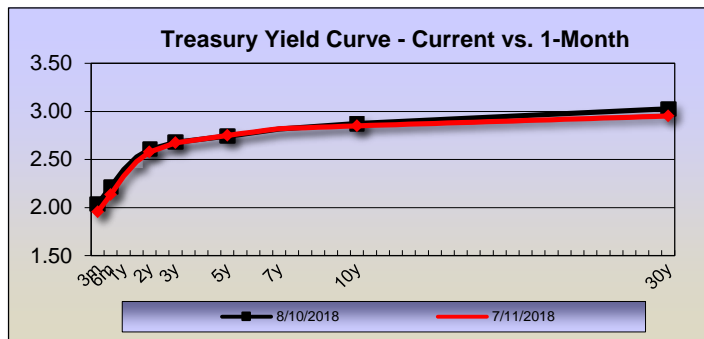
Within America's borders, we learned from the Bureau of Labor Statistics this week that there are more employment positions needing fulfillment. In its monthly Job Openings and Labor Turnover Survey, it was announced that the number of openings rose by 3k to 6,662k, or about 37k more than what was expected. Another sign, as if we needed it, that labor supply is tight and getting tighter. Many observers believe, and have believed for some time now, that such a condition *has* to lead to higher wages. To believe that, or to even pretend to believe that, may require at least a temporary suspension of reality.

Yes, we learned last week that wages are slowly, very slowly, creeping up. Unfortunately, we learned this week that inflation is creeping up a little faster. In July, the "core" rate of the Consumer Price Index rose by 0.2% and that pushed year-over-year price level growth up to 2.4%. Still pretty modest, but with the aforementioned wage growth going nowhere, that was all it took to erode the purchasing power of those compensated on an hourly basis by the also aforementioned 0.2%. The modesty of wholesale inflation was also revealed this week with the "core" rate of the Producer Price Index moving up by just 0.1%.

There's nothing modest about the size of Treasury debt auctions these days as a new record was set this week for Ten-Year Note sales. Wednesday's \$26B issuance was a billion bigger than the previous record and, if nothing else, revealed the equally immodest appetites of investors. The 2.55x bid-to-cover ratio was higher than the average of the last four quarterly refundings, and that surprised many who have been predicting that the Treasury would be having a hard time finding enough investors to buy all their bonds. Also surprising to many was the borrowing behavior of everyday Americans. Consumer Credit was expected to grow by about \$15B in June, so whatever behavioral constraints limited that growth to just \$10.2 were modestly astonishing. But, if purchasing power is declining, which it is, and Americans are borrowing less, which they are, where is Mr. Trump's 5% growth going to come from? Elon Musk?

Well, that's another story for another day. So far today, the Turkey Melt has melted the prospect of the Benchmark Ten-Year punching through its 3% ceiling as nervous credit market investors have lifted enough offerings to push that yield below 2.90%, while nervous equity traders have hit enough bids to lower the Dow by a couple hundred points or so.

As the uncertainties over future prospects seem to be growing, it's hard these days to know what to believe. It may be even harder to know what to *pretend* to believe. Until next week, 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	2.04	0.03	1.97	1.56	1.03	2yr	2.66	2.80	2.30	2.44	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.21	0.01	2.14	1.74	1.14	3yr	2.74	2.86	2.49	2.65	25.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.39	(0.02)	2.32	1.88	1.21	5yr	2.85	2.88	2.80	2.98	32.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.60	(0.04)	2.57	2.08	1.33	7yr	2.98	2.90	3.12	3.32	51.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.68	(0.05)	2.66	2.29	1.48	10yr	3.16	2.93	3.47	3.70	70.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.74	(0.07)	2.75	2.54	1.77	15yr	3.29	2.98	3.86	4.11	99.00	September TBA MBS				
7yr	2.82	(0.09)	2.82	2.75	2.02	20yr	3.42	2.99	4.14	4.41	98.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.87	(0.07)	2.85	2.85	2.20	25yr	3.55	2.98	4.22	4.49	100.00	2.00	3.28	5.0y		
30yr	3.03	(0.06)	2.96	3.16	2.77	30yr		2.96	4.30	4.57	102.00	2.50	3.11	5.2y		
												3.00	3.10	5.4y	3.41	9.8y
												3.50	3.24	5.2y	3.57	9.3y
												4.00			3.70	7.8y
												4.50			3.76	6.5y

* 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	1.91				
1 Month LIBOR	2.07	--	2.08	1.58	1.23
3 Month LIBOR	2.34	--	2.33	1.82	1.31
6 Month LIBOR	2.52	--	2.51	2.04	1.45
1 Year LIBOR	2.83	--	2.78	2.31	1.73
6 Month CD	2.51	--	2.50	2.02	1.41
1 Year CMT	2.44	--	2.34	1.89	1.21
REPO O/N	2.00	0.03	2.02	1.25	1.14
REPO 1Wk	1.98	--	1.99	1.46	1.19
CoF Federal	1.924	--	1.877	1.551	1.354
11th D. CoF (Jun)	0.934	--	0.885	0.753	0.657

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	2.23	2.36	2.17	2.34	Aug-18	1.912
6mo	2.39	2.50	2.34	2.51	Sep-18	1.940
1yr	2.69	2.65	2.58	2.74	Oct-18	2.135
2yr	2.82	2.99	2.88	3.07	Nov-18	2.140
3yr	2.90	3.10	3.02	3.18	Dec-18	2.205
4yr	2.95	3.16	3.09	3.25	Jan-19	2.300
5yr	3.00	3.21	3.11	3.27	Feb-19	2.310
7yr	3.20	3.46	3.32	3.43	Mar-19	2.355
10yr	3.37	3.64	3.45	3.60	Apr-19	2.445
5yr Am	2.93		3.03	3.23	May-19	2.465
10yr Am	3.23		3.30	3.52	Jun-19	2.490

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
08/07	JOLTS Job Openings	Jun	6625.00	6662.00	6638.00	6659.00
08/07	Consumer Credit	Jun	\$15.000b	\$10.211b	\$24.559b	\$24.259b
08/08	MBA Mortgage Applications	8/3	--	-3.00%	-2.60%	--
08/09	Initial Jobless Claims	8/4	220k	213k	248k	219k
08/09	Continuing Claims	7/28	1730k	1755k	1724k	1726k
08/09	PPI Final Demand YoY	Jul	3.40%	3.30%	3.40%	--
08/09	PPI Ex Food and Energy YoY	Jul	2.80%	2.70%	2.80%	--
08/09	PPI Ex Food, Energy, Trade YoY	Jul	--	2.80%	2.70%	--
08/09	Bloomberg Consumer Comfort	8/5	--	59.30	58.60	--
08/09	Wholesale Inventories MoM	Jun F	0.00%	0.10%	0.00%	--
08/09	Wholesale Trade Sales MoM	Jun	0.20%	-0.10%	2.50%	2.10%
08/10	CPI MoM	Jul	0.20%	0.20%	0.10%	--
08/10	CPI Ex Food and Energy MoM	Jul	0.20%	0.20%	0.20%	--
08/10	CPI YoY	Jul	2.90%	2.90%	2.90%	--
08/10	CPI Ex Food and Energy YoY	Jul	2.30%	2.40%	2.30%	--
08/10	CPI Index NSA	Jul	251.97	252.01	251.99	--
08/10	CPI Core Index SA	Jul	257.82	257.93	257.31	--
08/10	Real Avg Weekly Earnings YoY	Jul	--	0.10%	0.20%	0.50%
08/10	Real Avg Hourly Earning YoY	Jul	--	-0.20%	0.00%	--
08/10	Monthly Budget Statement	Jul	-\$75.4b	--	-\$42.9b	--
08/13	Mortgage Delinquencies	2Q	--	--	4.63%	--
08/13	MBA Mortgage Foreclosures	2Q	--	--	1.16%	--
08/14	NFIB Small Business Optimism	Jul	106.80	--	107.20	--
08/14	Import Price Index YoY	Jul	4.50%	--	4.30%	--
08/14	Export Price Index YoY	Jul	--	--	5.30%	--
08/15	Empire Manufacturing	Aug	20.00	--	22.60	--
08/15	Nonfarm Productivity	2Q P	2.50%	--	0.40%	--
08/15	Unit Labor Costs	2Q P	0.40%	--	2.90%	--
08/15	Retail Sales Ex Auto and Gas	Jul	0.40%	--	0.30%	--
08/15	Retail Sales Control Group	Jul	0.40%	--	0.00%	--
08/15	Industrial Production MoM	Jul	0.30%	--	0.60%	--
08/15	Capacity Utilization	Jul	78.20%	--	78.00%	--
08/15	Manufacturing (SIC) Production	Jul	0.30%	--	0.80%	--
08/15	Business Inventories	Jun	0.10%	--	0.40%	--
08/15	NAHB Housing Market Index	Aug	67.00	--	68.00	--
08/15	Total Net TIC Flows	Jun	--	--	\$69.9b	--
08/15	Net Long-term TIC Flows	Jun	--	--	\$45.6b	--
08/16	Initial Jobless Claims	8/11	215k	--	213k	--
08/16	Continuing Claims	8/4	--	--	1755k	--
08/16	Philadelphia Fed Business Outlook	Aug	22.00	--	25.70	--
08/16	Housing Starts	Jul	1267k	--	1173k	--
08/16	Building Permits	Jul	1310k	--	1273k	1292k
08/16	Bloomberg Economic Expectations	Aug	--	--	53.50	--
08/16	Bloomberg Consumer Comfort	8/12	--	--	59.30	--
08/17	Leading Index	Jul	0.40%	--	0.50%	--
08/17	U. of Mich. Current Conditions	Aug P	--	--	114.40	--
08/17	U. of Mich. 1 Yr Inflation	Aug P	--	--	2.90%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.0	13.9	14.9	15.9	22.3	33.3
FH/FN 15y	7.5	6.6	6.1	7.5	14.9	18.1
GN 15y	15.3	12.9	12.7	13.5	13.5	14.9
FH/FN 20y		6.5	8.7	9.5	10.1	12.6
FH/FN 30y	2.1	6.1	4.0	4.1	4.5	7.0
GN 30y	12.9	10.9	13.6	15.2	15.8	16.5
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.3	11.4	12.1	17.4	14.9	21.9
FH/FN 15y	7.4	8.0	7.8	8.9	14.0	22.8
GN 15y	11.4	10.1	12.4	14.4	13.9	13.4
FH/FN 20y	0.1	6.7	7.8	9.5	12.2	14.3
FH/FN 30y	4.9	5.6	6.0	6.7	9.2	11.9
GN 30y	9.7	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	110.67	(0.58)	111.00	108.66	109.20
Euro	1.14	(0.02)	1.17	1.23	1.18
Dollar Index	96.25	1.08	94.16	90.44	93.40
Major Stock Indices					
Dow Jones	25,355	(108)	24,920	24,191	21,844
S&P 500	2,840.3	(0.0)	2,793.8	2,619.6	2,438.2
NASDAQ	7,863.6	52	7,759.2	6,874.5	6,216.9
Commodities					
Gold	1,216.4	2.2	1,255.4	1,313.1	1,283.7
Crude Oil	67.63	(0.86)	74.11	59.20	48.59
Natural Gas	2.93	0.07	2.79	2.58	2.99
Wheat	567.5	11.3	489.5	449.0	440.5
Corn	366.0	-3.8	339.8	362.0	357.3

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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