

Baker Market Update: Week in Review

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The dog days of summer are coming to an end and the kids are back to school! For some parents, this time of year couldn't come any sooner. I think my fellow parents would agree, there's something to be said about adhering to a consistent routine. Unfortunately, I'll be interrupting your regularly scheduled broadcast of Lunch with Lester as Mr. Murray enjoys our nation's Rocky Mountains. The good news is that it's Friday and while Lester won't be joining us for Lunch today, Drinks with Drew will have to suffice. So cheers!

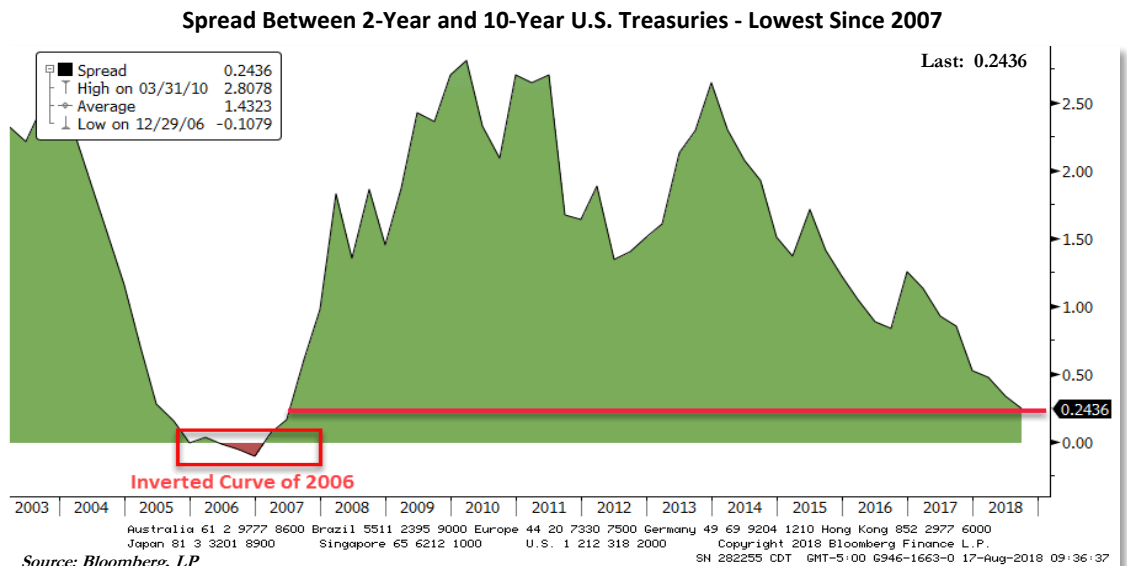
While we're on the topic of breaking routines, U.S. equities are trimming the gains earned yesterday on the heels of disappointing results from U.S. chipmakers. Treasuries, Crude Oil and Gold are opening strong in early morning trading. It's been quite the turbulent week for global stocks and currencies alike, as the freefall in the Turkish Lira and trade negotiations between the U.S. and China continue to unfold.

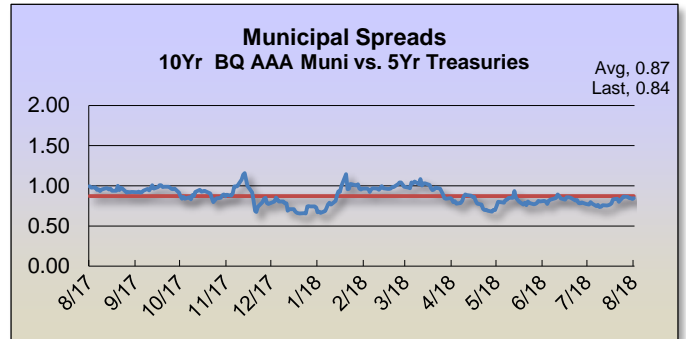
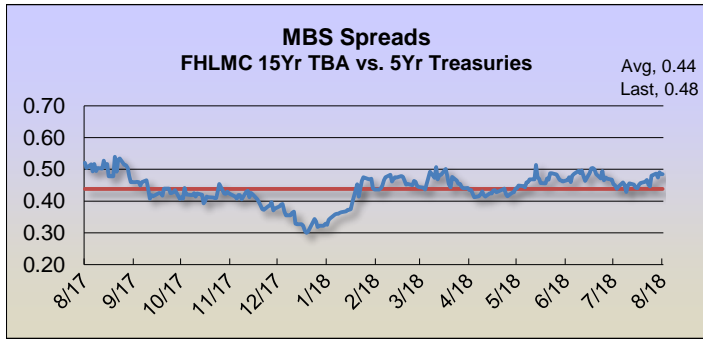
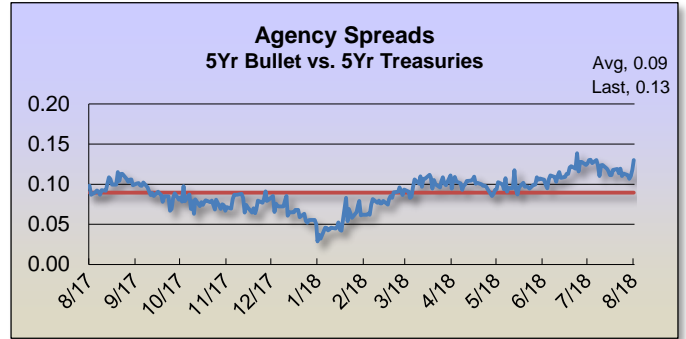
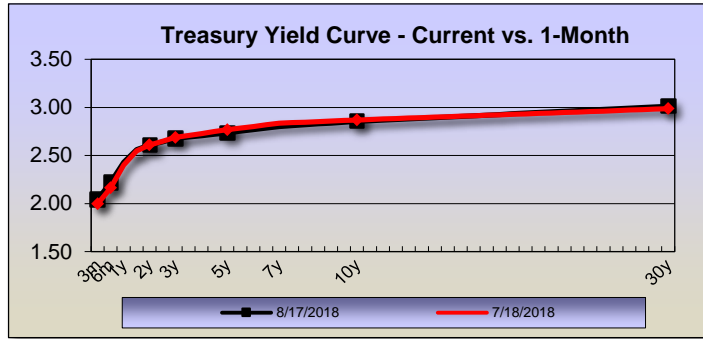
Domestically, the U.S. economy started the week on flat import prices from last month and a 4.8% gain on the year. Exports were slightly lower in July and up 4.3% from last year. Retail Sales beat analysts' expectations on Wednesday after a very strong June report. In other good news, both Initial and Continuing Jobless Claims came in lower than anticipated.

As for the bad news, the Philadelphia Fed's Business Outlook Survey plunged to 11.9, suggesting that manufacturing is starting to experience the pains of the ongoing trade war. This was the lowest level for the index since December 2016. Housing starts were also disappointing (again) with only a 0.9% increase on the month. Analysts were expecting a strong 7.4% rebound after a dismal 12.3% decline in the prior month. Unfortunately, there were also downward revisions for Housing Starts in May and June. We'll get plenty more housing data next week with the release of Existing and New Home Sales and the FHFA's House Price Index.

Today's trading in U.S. Treasuries continues to compress the yield curve with the difference between 2yr and 10yr Notes at a paltry 24 basis points, the tightest spread since 2007. This time truly is different, as today's 10yr Treasury yield has had a difficult time trading north of 3%, currently at 2.85%. In 2007, the 10yr topped out at 5.3% before we entered into The Great Recession. This begs the question...is today's 3% the new 5% for long term interest rates? The smart money seems to think so.

Until next time, stay positive out there folks.





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	(0.00)	2.01	1.59	1.00	2yr	2.67	2.81	2.28	2.43	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.22	(0.00)	2.18	1.82	1.12	3yr	2.75	2.85	2.46	2.62	25.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.43	0.03	2.38	1.98	1.23	5yr	2.86	2.87	2.77	2.95	32.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.61	0.00	2.62	2.19	1.30	7yr	2.98	2.89	3.08	3.28	51.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.68	(0.00)	2.69	2.38	1.45	10yr	3.17	2.93	3.40	3.62	70.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.73	(0.01)	2.76	2.63	1.75	15yr	3.31	2.97	3.81	4.05	99.00	September TBA MBS				
7yr	2.80	(0.02)	2.83	2.81	2.00	20yr	3.46	2.97	4.06	4.32	98.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.86	(0.02)	2.86	2.88	2.19	25yr	3.60	2.96	4.14	4.40	100.00	2.00	3.28	5.0y		
30yr	3.01	(0.02)	2.97	3.13	2.77	30yr		2.95	4.21	4.48	102.00	2.50	3.11	5.2y		
												3.00	3.10	5.4y	3.41	9.8y
												3.50	3.23	5.2y	3.57	9.3y
												4.00			3.69	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	1.99	--			
1 Month LIBOR	2.06	--	2.07	1.59	1.23
3 Month LIBOR	2.31	--	2.34	1.87	1.31
6 Month LIBOR	2.51	--	2.52	2.10	1.45
1 Year LIBOR	2.81	--	2.79	2.38	1.73
6 Month CD	2.51	--	2.51	2.10	1.41
1 Year CMT	2.45	0.01	2.39	2.00	1.24
REPO O/N	1.99	--	2.02	1.35	1.10
REPO 1Wk	1.98	--	1.98	1.51	1.20
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	2.25	2.38	2.17	2.36	Aug-18	1.915
6mo	2.38	2.49	2.34	2.50	Sep-18	1.950
1yr	2.69	2.67	2.58	2.76	Oct-18	2.145
2yr	2.80	2.97	2.88	3.00	Nov-18	2.150
3yr	2.86	3.05	3.02	3.08	Dec-18	2.215
4yr	2.91	3.11	3.09	3.13	Jan-19	2.310
5yr	2.96	3.17	3.11	3.17	Feb-19	2.320
7yr	3.17	3.41	3.32	3.31	Mar-19	2.365
10yr	3.34	3.60	3.45	3.47	Apr-19	2.445
5yr Am	2.89		3.03	3.13	May-19	2.470
10yr Am	3.19		3.30	3.40	Jun-19	2.500

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
08/14	NFIB Small Business Optimism	Jul	106.80	107.90	107.20	--
08/14	Import Price Index MoM	Jul	0.00%	0.00%	-0.40%	-0.10%
08/14	Import Price Index ex Petroleum MoM	Jul	0.10%	-0.10%	-0.30%	-0.40%
08/14	Import Price Index YoY	Jul	4.50%	4.80%	4.30%	4.70%
08/14	Export Price Index YoY	Jul	--	4.30%	5.30%	--
08/15	MBA Mortgage Applications	8/10	--	-2.00%	-3.00%	--
08/15	Empire Manufacturing	Aug	20.00	25.60	22.60	--
08/15	Nonfarm Productivity	2Q P	2.40%	2.90%	0.40%	0.30%
08/15	Unit Labor Costs	2Q P	0.00%	-0.90%	2.90%	3.40%
08/15	Retail Sales Advance MoM	Jul	0.10%	0.50%	0.50%	0.20%
08/15	Retail Sales Ex Auto MoM	Jul	0.30%	0.60%	0.40%	0.20%
08/15	Retail Sales Ex Auto and Gas	Jul	0.40%	0.60%	0.30%	0.20%
08/15	Industrial Production MoM	Jul	0.30%	0.10%	0.60%	1.00%
08/15	Capacity Utilization	Jul	78.20%	78.10%	78.00%	78.10%
08/15	Manufacturing (SIC) Production	Jul	0.30%	0.30%	0.80%	--
08/15	Business Inventories	Jun	0.10%	0.10%	0.40%	0.30%
08/15	NAHB Housing Market Index	Aug	67.00	67.00	68.00	--
08/15	Total Net TIC Flows	Jun	--	\$114.5b	\$69.9b	\$69.2b
08/15	Net Long-term TIC Flows	Jun	--	-\$36.5b	\$45.6b	\$45.5b
08/16	Initial Jobless Claims	8/11	215k	212k	213k	214k
08/16	Continuing Claims	8/4	1738k	1721k	1755k	1760k
08/16	Philadelphia Fed Business Outlook	Aug	22.00	11.90	25.70	--
08/16	Housing Starts	Jul	1264k	1168k	1173k	1158k
08/16	Building Permits	Jul	1310k	1311k	1273k	1292k
08/16	Bloomberg Economic Expectations	Aug	--	57.00	53.50	--
08/16	Bloomberg Consumer Comfort	8/12	--	58.90	59.30	--
08/16	Mortgage Delinquencies	2Q	--	4.36%	4.63%	--
08/16	MBA Mortgage Foreclosures	2Q	--	1.05%	1.16%	--
08/17	Leading Index	Jul	0.40%	0.60%	0.50%	--
08/17	U. of Mich. Current Conditions	Aug P	--	107.80	114.40	--
08/17	U. of Mich. 1 Yr Inflation	Aug P	--	2.90%	2.90%	--
08/22	MBA Mortgage Applications	8/17	--	--	-2.00%	--
08/22	Existing Home Sales	Jul	5.43m	--	5.38m	--
08/22	Existing Home Sales MoM	Jul	0.90%	--	-0.60%	--
08/22	FOMC Meeting Minutes	8/1	--	--	--	--
08/23	Initial Jobless Claims	8/18	215k	--	212k	--
08/23	Continuing Claims	8/11	--	--	1721k	--
08/23	FHFA House Price Index MoM	Jun	0.30%	--	0.20%	--
08/23	House Price Purchase Index QoQ	2Q	--	--	1.70%	--
08/23	Bloomberg Consumer Comfort	8/19	--	--	58.90	--
08/23	Markit US Manufacturing PMI	Aug P	55.00	--	55.30	--
08/23	Markit US Services PMI	Aug P	55.90	--	56.00	--
08/23	Markit US Composite PMI	Aug P	--	--	55.70	--
08/23	New Home Sales	Jul	650k	--	631k	--
08/23	Kansas City Fed Manf. Activity	Aug	22.00	--	23.00	--
08/24	Durables Ex Transportation	Jul P	0.50%	--	0.20%	--
08/24	Cap Goods Ship Nondef Ex Air	Jul P	0.30%	--	0.70%	--

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	11.5	12.2	17.7	15.1	22.7
FH/FN 15y	7.4	8.0	7.9	9.0	14.1	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	110.39	(0.44)	112.88	106.59	109.57
Euro	1.14	0.00	1.17	1.24	1.17
Dollar Index	96.30	(0.06)	94.99	89.10	93.62
Major Stock Indices					
Dow Jones	25,543	230	25,120	25,219	21,751
S&P 500	2,838.5	5.2	2,809.6	2,732.2	2,430.0
NASDAQ	7,764.5	(75)	7,855.1	7,239.5	6,221.9
Commodities					
Gold	1,178.8	(32.3)	1,227.3	1,353.2	1,286.4
Crude Oil	66.01	(1.62)	68.08	61.68	47.09
Natural Gas	2.95	0.01	2.74	2.56	2.93
Wheat	561.5	14.8	497.8	457.8	414.0
Corn	366.3	8.5	346.3	367.5	350.5

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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