

Baker Market Update: Week in Review

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It's widely known that not everyone on the Federal Reserve Open Market Committee gets to vote. But, did you know this; *everybody* gets a trophy for participating. And according to the minutes of the August meeting, there was a *lot* of participation. After the obligatory nod to uncertainty, all of those new trophy-holders agreed that we are getting close to the point at which describing monetary policy as "accommodative" would no longer be appropriate. Really? After seven rate hikes, the inflation-adjusted rate for Fed Funds is still negative, and that is still pretty accommodative. That will change if the Fed stays on its path to higher rates, which it looks like it will, as long as inflation stops where it is.

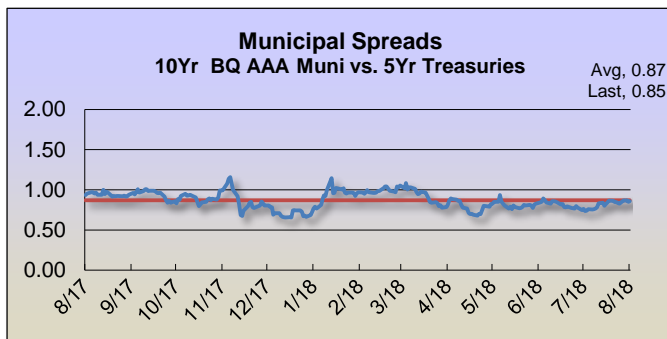
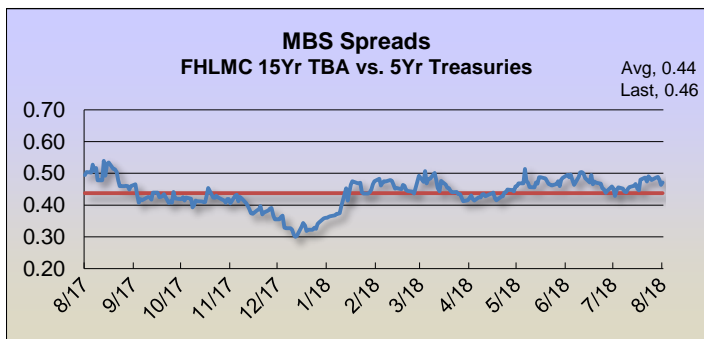
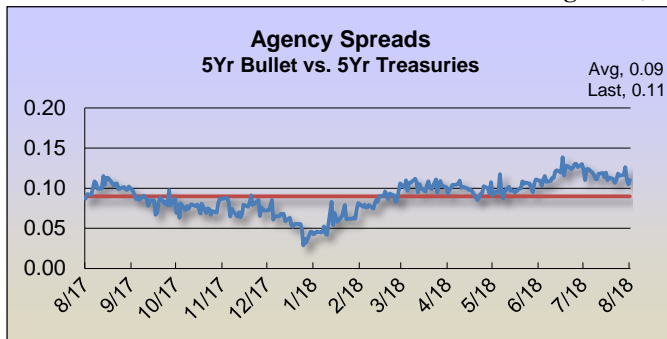
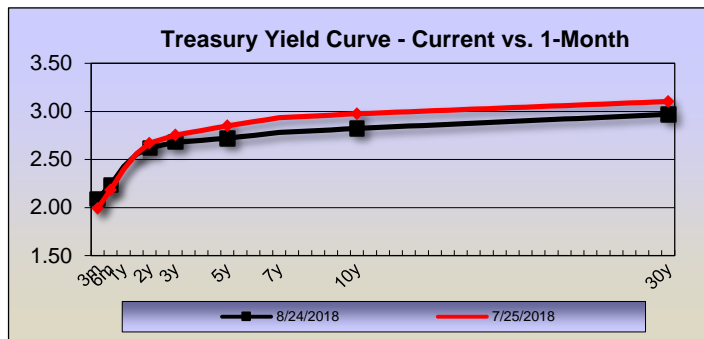
Previous concerns articulated by the Committee's more hawkish members seem to have vanished with Chairman Powell's Wyoming pronouncement just this morning that "While inflation has recently moved up near 2%, we have seen no clear sign of an acceleration above 2%, and there does not seem to be an elevated risk of overheating." It looks like Mr. Powell might be starting to figure out why the bond market seems to be okay with Ten-Year Treasuries substantially below 3%. Which, by the way, means that the spread between 10's and 2's has narrowed to about 20 basis points.

This continued yield curve flattening and potential inversion was also a topic of August's FOMC meeting. It's hard to shake the impression that the Committee seems to view this development as an inexorable phenomenon of nature over which it has no control. One exception may be St. Louis Fed President James Bullard. In his own Jackson Hole speech yesterday, Mr. Bullard's recognition of monetary policy's complicity was evident when he said this: "There is no reason to challenge the yield curve at this time. Inflation is low, it is stable, it is barely up to target. We don't need to be preemptive..." Be careful Jim, not only are they not letting you vote, but, with cracks like that, they might take away your trophy, too.

But perhaps, concerns over a policy misstep are unfounded. After all, we keep hearing, and reading, that it's all about the data. But, one can see clearly from the vista provided by the Teton Mountains that interpretations of that data can vary considerably.

What about this week's data? Well, let's start by going back to last Friday's preliminary Consumer Sentiment report from the University of Michigan. The precipitous slip from 97.9 to 95.3 in the overall index looks relatively benign compared to the Current Conditions sub-index. That component took a mountainside tumble to 107.8 from 114.4. Clearly, those survey respondents haven't been listening to Mr. Powell.

They might have been listening to their realtor. We learned this week that the expected rise in Existing Home Sales for July actually turned out to be a .07% decline. New Home Sales fared slightly better, but still declined by about 0.2%. As a proxy for macroeconomic vitality, an ever-weakening housing market does not line up with higher expectations for growth. If one has expectations for the resolution of the nation's various trade disputes with various trading partners, it might be best to keep those expectations low. For the moment, discussions with China have at least temporarily stalled. The good news is that no one seems to care. Bond prices are up, stock prices are up, fossil fuel is up, and gold is way up, even if Durable Goods Orders fell by almost 2% last month. With all these prices going up, it's getting harder and harder to find a bargain. Unless, or course, one is bargaining with the Department of Justice for a plea deal. Don't forget to join us for coffee on Monday morning and in the meantime, 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	2.09	0.05	1.99	1.64	1.02	2yr	2.67	2.81	2.30	2.44	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.23	0.01	2.19	1.85	1.12	3yr	2.72	2.85	2.48	2.64	25.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.43	(0.00)	2.40	2.00	1.23	5yr	2.81	2.85	2.79	2.97	32.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.62	0.01	2.64	2.24	1.33	7yr	2.91	2.86	3.09	3.29	51.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.68	(0.00)	2.73	2.39	1.48	10yr	3.10	2.90	3.42	3.64	70.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.72	(0.02)	2.82	2.62	1.78	15yr	3.22	2.94	3.79	4.04	99.00	September TBA MBS				
7yr	2.78	(0.03)	2.91	2.79	2.01	20yr	3.35	2.94	4.05	4.31	98.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.82	(0.04)	2.95	2.87	2.19	25yr	3.48	2.93	4.12	4.39	100.00	2.00	3.26	5.0y		
30yr	2.97	(0.05)	3.08	3.16	2.77	30yr		2.92	4.20	4.47	102.00	2.50	3.06	5.3y		
												3.00	3.08	5.5y	3.39	9.7y
												3.50	3.22	5.2y	3.55	9.5y
												4.00			3.68	8.0y
												4.50			3.73	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	1.94				
1 Month LIBOR	2.06	--	2.06	1.63	1.23
3 Month LIBOR	2.31	--	2.34	1.96	1.32
6 Month LIBOR	2.52	--	2.52	2.18	1.46
1 Year LIBOR	2.81	--	2.80	2.46	1.73
6 Month CD	2.48	--	2.51	2.18	1.42
1 Year CMT	2.43	--	2.42	2.02	1.22
REPO O/N	2.04	0.05	1.70	1.48	1.19
REPO 1Wk	1.98	--	1.98	1.52	1.19
CoF Federal	1.979	--	1.924	1.606	1.397
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	2.27	2.40	2.17	2.36	Aug-18	1.915
6mo	2.38	2.49	2.34	2.50	Sep-18	1.950
1yr	2.69	2.68	2.58	2.76	Oct-18	2.155
2yr	2.82	2.99	2.88	3.02	Nov-18	2.155
3yr	2.88	3.07	3.02	3.09	Dec-18	2.220
4yr	2.93	3.13	3.09	3.15	Jan-19	2.325
5yr	2.97	3.18	3.11	3.17	Feb-19	2.335
7yr	3.16	3.41	3.32	3.30	Mar-19	2.375
10yr	3.32	3.59	3.45	3.46	Apr-19	2.455
5yr Am	2.91		3.03	3.14	May-19	2.480
10yr Am	3.19		3.30	3.40	Jun-19	2.510

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
08/22	MBA Mortgage Applications	8/17	--	4.20%	-2.00%	--
08/22	Existing Home Sales	Jul	5.40m	5.34m	5.38m	--
08/22	Existing Home Sales MoM	Jul	0.40%	-0.70%	-0.60%	--
08/22	FOMC Meeting Minutes	8/1	--	--	--	--
08/23	Initial Jobless Claims	8/18	215k	210k	212k	--
08/23	Continuing Claims	8/11	1730k	1727k	1724k	1729k
08/23	FHFA House Price Index MoM	Jun	0.00	0.00	0.00	0.00
08/23	House Price Purchase Index QoQ	2Q	--	1.10%	1.70%	1.90%
08/23	Bloomberg Consumer Comfort	8/19	--	58.60	58.90	--
08/23	Markit US Manufacturing PMI	Aug P	55.00	54.50	55.30	--
08/23	Markit US Services PMI	Aug P	55.80	55.20	56.00	--
08/23	Markit US Composite PMI	Aug P	--	55.00	55.70	--
08/23	New Home Sales	Jul	645k	627k	634k	638k
08/23	New Home Sales MoM	Jul	2.20%	-1.70%	-5.30%	-2.40%
08/23	Kansas City Fed Manf. Activity	Aug	23.00	14.00	23.00	--
08/24	Durable Goods Orders	Jul P	-1.00%	-1.70%	0.80%	0.70%
08/24	Durables Ex Transportation	Jul P	0.50%	0.20%	0.20%	0.10%
08/24	Cap Goods Orders Nondef Ex Air	Jul P	0.50%	1.40%	0.20%	0.60%
08/24	Cap Goods Ship Nondef Ex Air	Jul P	0.30%	0.90%	0.70%	0.90%
08/27	Chicago Fed Nat Activity Index	Jul	45.00%	--	43.00%	--
08/27	Dallas Fed Manf. Activity	Aug	30.00	--	32.30	--
08/28	Advance Goods Trade Balance	Jul	-\$69.0b	--	-\$68.3b	-\$67.9b
08/28	Wholesale Inventories MoM	Jul P	--	--	0.10%	--
08/28	Retail Inventories MoM	Jul	--	--	0.00%	0.10%
08/28	S&P CoreLogic CS 20-City YoY NSA	Jun	6.43%	--	6.51%	--
08/28	S&P CoreLogic CS US HPI YoY NSA	Jun	--	--	6.38%	--
08/28	Richmond Fed Manufact. Index	Aug	18.00	--	20.00	--
08/28	Conf. Board Consumer Confidence	Aug	126.50	--	127.40	--
08/28	Conf. Board Present Situation	Aug	--	--	165.90	--
08/28	Conf. Board Expectations	Aug	--	--	101.70	--
08/29	MBA Mortgage Applications	8/24	--	--	4.20%	--
08/29	GDP Annualized QoQ	2Q S	4.00%	--	4.10%	--
08/29	Personal Consumption	2Q S	3.90%	--	4.00%	--
08/29	GDP Price Index	2Q S	3.00%	--	3.00%	--
08/29	Core PCE QoQ	2Q S	2.00%	--	2.00%	--
08/29	Pending Home Sales NSA YoY	Jul	--	--	-4.00%	--
08/30	PCE Core YoY	Jul	2.00%	--	1.90%	--
08/30	Personal Income	Jul	0.40%	--	0.40%	--
08/30	Personal Spending	Jul	0.40%	--	0.40%	--
08/30	Real Personal Spending	Jul	0.20%	--	0.30%	--
08/30	PCE Deflator YoY	Jul	2.30%	--	2.20%	--
08/30	Initial Jobless Claims	8/25	215k	--	210k	--
08/30	Continuing Claims	8/18	--	--	1727k	--
08/30	Bloomberg Consumer Comfort	8/26	--	--	58.60	--
08/31	Chicago Purchasing Manager	Aug	63.00	--	65.50	--
08/31	U. of Mich. Current Conditions	Aug F	--	--	107.80	--
08/31	U. of Mich. 1 Yr Inflation	Aug F	--	--	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	11.6	12.2	17.7	15.2	22.7
FH/FN 15y	7.4	7.7	7.4	9.2	14.1	22.5
GN 15y	11.4	10.1	12.5	14.5	14.0	13.7
FH/FN 20y	0.1	6.6	7.6	9.8	12.8	13.9
FH/FN 30y	4.9	5.5	6.1	6.6	8.8	12.0
GN 30y	9.7	8.0	9.0	11.2	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	111.20	0.70	111.20	106.93	109.56
Euro	1.16	0.02	1.17	1.23	1.18
Dollar Index	95.10	(1.00)	94.61	89.88	93.28
Major Stock Indices					
Dow Jones	25,793	124	25,242	25,310	21,783
S&P 500	2,870.5	20.4	2,820.4	2,747.3	2,439.0
NASDAQ	7,945.5	129	7,840.8	7,337.4	6,271.3
Commodities					
Gold	1,207.8	31.3	1,225.5	1,328.2	1,286.5
Crude Oil	69.09	3.18	68.52	63.55	47.43
Natural Gas	2.93	(0.01)	2.73	2.63	2.95
Wheat	514.3	-46.3	510.3	452.3	409.0
Corn	348.5	-15.8	352.0	366.3	342.0

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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