

## Baker Market Update: Week in Preview

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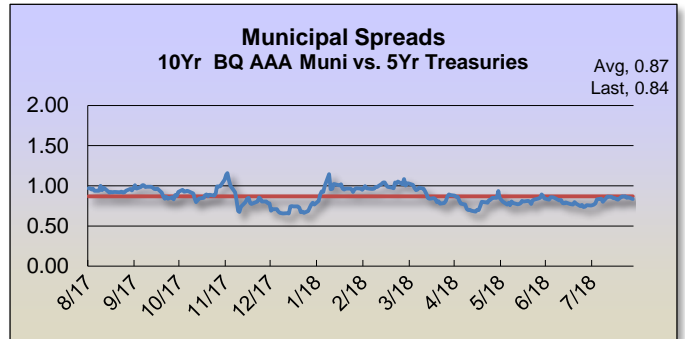
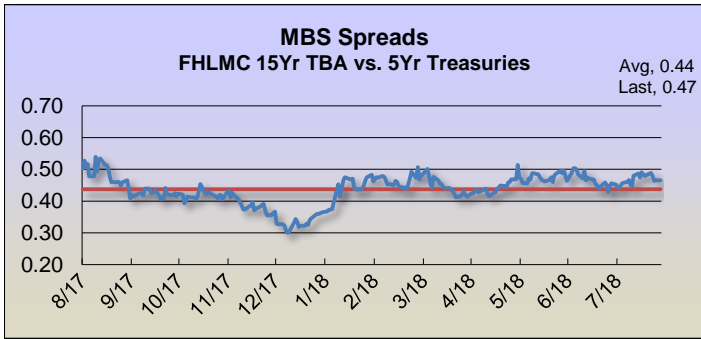
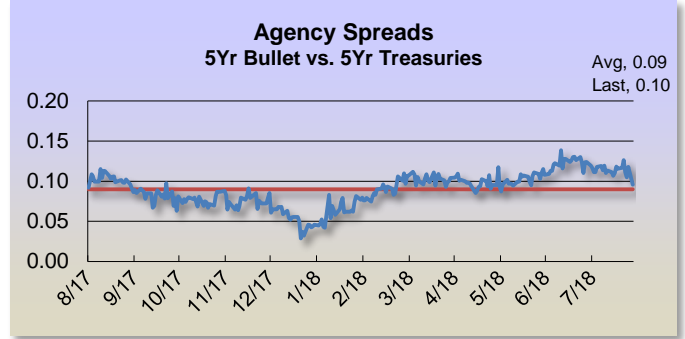
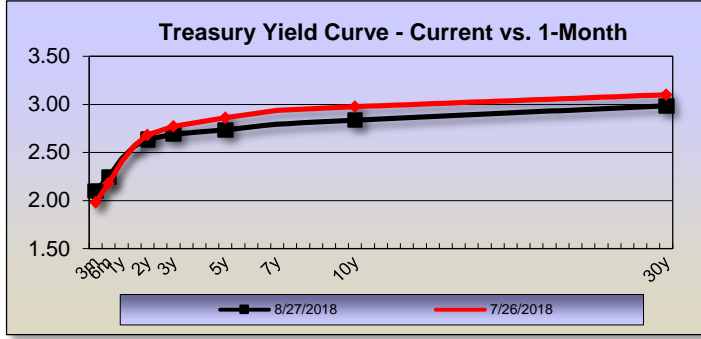
The bargain hunting of last week continues this morning as markets greet the news that a trade deal between Mexico and the U.S. is in the offing. Some news accounts speculate that a final agreement might even be announced as soon as today. No word yet from Canada. Plenty of words, though, from others still trying to divine the subtleties, real or imagined, of Jerome Powell's Jackson Hole speech. Mr. Powell must be secretly pleased that pundits can't seem to universally conclude on the degree to which his remarks were hawkish. Or, maybe they were dovish. The cheerleading of various regional Fed Presidents notwithstanding, uncertainty still rules the day, and one suspects that's how Jerome likes it. Chairman Powell doesn't seem to adhere to the unspoken inclusion of financial market stability as the unspoken third element of the dual mandate that characterized the reign of his recent predecessors.

So far this morning, there appears to be something that doesn't feel quite right to bond investors. A slight sell-off has pushed up Treasury yields a few basis points here and there, but the Ten Year is still languishing around 2.85%. Equities are up big; almost as if to flaunt the "destabilizing excesses" that the Chairman referenced in Wyoming. Was that the Powell version of Greenspan's "irrational exuberance?"

Well, as rational investors and policy makers digest this week's data, what will they find? Today, apart from a possible announcement on trade relationships, markets will get a feel for manufacturing's exuberance with new regional reports expected from the Federal Reserve Banks of Chicago and Dallas. Early surveys suggest signs of slowing. Tomorrow, we'll see how the recent slowdown in home sales has impacted prices in the world of residential real estate with the release of the latest set of CoreLogic Case-Shiller Home Price Indices.

Home values, and prices, seem to have considerable sway over the attitudes of consumers, and the Conference Board will be releasing its August report on Consumer Confidence tomorrow morning. While market estimates don't portend much change from the July report, many observers will be looking closely to see if this measure follows the recent declines in the feel-good sentiments of the University of Michigan's Index. Speaking of the Wolverines, their finalized report for the month, will come out on Friday, with no reversions of the previously reported declines expected.

The most anxiously anticipated news of the week may be coming out on Thursday, a day that also marks the beginning of the college football season and the end, unfortunately, of the pre-season irrational exuberance of Oklahoma State fans. Before the Pokes kick-off, however, we will all get a fresh look at several key measurements that always garner lots of attention. The Bureau of Economic Analysis, it is expected, will report that the Fed's 2% goal for year-over-year core inflation has been officially achieved. For non-policy makers, they may be more interested in the accompanying reports for Personal Income and Personal Spending. News of rising wages has been dismally absent in the main and recent reports of negative growth in **Real** Average Hourly Earnings have not been a source of strong underpinnings for the narrative of economic boomtimes. Ahead of the report's release, markets are expecting significant growth in these measures. Just like last time. We'll visit some more on Friday; have a great week and 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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	2.10	0.06	1.99	1.66	1.01	2yr	2.69	2.82	2.30	2.44	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.24	0.03	2.18	1.86	1.11	3yr	2.74	2.86	2.48	2.64	25.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.44	0.02	2.41	2.01	1.23	5yr	2.83	2.87	2.79	2.97	32.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.64	0.05	2.67	2.26	1.33	7yr	2.94	2.88	3.08	3.28	51.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.69	0.04	2.76	2.42	1.48	10yr	3.12	2.92	3.40	3.62	70.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.74	0.04	2.84	2.66	1.76	15yr	3.21	2.96	3.78	4.02	99.00	September TBA MBS				
7yr	2.79	0.03	2.92	2.83	1.99	20yr	3.29	2.96	4.05	4.31	98.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.84	0.02	2.96	2.89	2.17	25yr	3.37	2.95	4.12	4.39	100.00	2.00	3.26	5.0y		
30yr	2.99	0.00	3.08	3.16	2.75	30yr		2.94	4.20	4.47	102.00	2.50	3.08	5.3y		
												3.00	3.10	5.5y	3.41	9.7y
												3.50	3.23	5.2y	3.56	9.4y
												4.00			3.69	7.9y
												4.50			3.74	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	1.95				
1 Month LIBOR	2.07	--	2.07	1.63	1.23
3 Month LIBOR	2.32	--	2.33	1.96	1.32
6 Month LIBOR	2.52	0.01	2.52	2.18	1.45
1 Year LIBOR	2.82	--	2.81	2.46	1.72
6 Month CD	2.50	--	2.51	2.21	1.42
1 Year CMT	2.44	--	2.42	2.02	1.23
REPO O/N	2.05	0.07	1.90	1.38	1.14
REPO 1Wk	1.98	--	1.98	1.51	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	2.39	2.50	2.34	2.50	Sep-18	1.955
1yr	2.69	2.66	2.58	2.76	Oct-18	2.155
2yr	2.82	3.00	2.88	3.02	Nov-18	2.160
3yr	2.87	3.06	3.02	3.09	Dec-18	2.225
4yr	2.92	3.13	3.09	3.15	Jan-19	2.325
5yr	2.96	3.17	3.11	3.17	Feb-19	2.340
7yr	3.16	3.41	3.32	3.30	Mar-19	2.385
10yr	3.32	3.59	3.45	3.46	Apr-19	2.465
5yr Am	2.91		3.03	3.14	May-19	2.490
10yr Am	3.18		3.30	3.40	Jun-19	2.520

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
08/28	Advance Goods Trade Balance	Jul	-\$69.0b	--	-\$68.3b	-\$67.9b
08/28	Wholesale Inventories MoM	Jul P	0.20%	--	0.10%	--
08/28	Retail Inventories MoM	Jul	--	--	0.00%	0.10%
08/28	S&P CoreLogic CS 20-City YoY NSA	Jun	6.40%	--	6.51%	--
08/28	S&P CoreLogic CS US HPI YoY NSA	Jun	--	--	6.38%	--
08/28	Conf. Board Consumer Confidence	Aug	126.60	--	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	-2.50%	--	-4.00%	--
08/30	PCE Core YoY	Jul	2.00%	--	1.90%	--
08/30	Personal Income	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	213k	--	210k	--
08/30	Continuing Claims	8/18	1730k	--	1727k	--
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%	--
09/04	ISM Manufacturing	Aug	57.40	--	58.10	--
09/04	ISM Employment	Aug	--	--	56.50	--
09/04	ISM Prices Paid	Aug	--	--	73.20	--
09/04	ISM New Orders	Aug	--	--	60.20	--
09/06	Challenger Job Cuts YoY	Aug	--	--	-4.20%	--
09/06	ADP Employment Change	Aug	191k	--	219k	--
09/06	Nonfarm Productivity	2Q F	2.90%	--	2.90%	--
09/06	Unit Labor Costs	2Q F	-0.90%	--	-0.90%	--
09/06	Initial Jobless Claims	9/1	--	--	--	--
09/06	Continuing Claims	8/25	--	--	--	--
09/06	Markit US Composite PMI	Aug F	--	--	55.00	--
09/06	ISM Non-Manufacturing Index	Aug	56.80	--	55.70	--
09/06	Factory Orders Ex Trans	Jul	--	--	0.40%	--
09/06	Durables Ex Transportation	Jul F	--	--	0.20%	--
09/06	Cap Goods Ship Nondef Ex Air	Jul F	--	--	0.90%	--
09/07	Change in Nonfarm Payrolls	Aug	192k	--	157k	--
09/07	Two-Month Payroll Net Revision	Aug	--	--	59k	--
09/07	Change in Private Payrolls	Aug	189k	--	170k	--
09/07	Change in Manufact. Payrolls	Aug	30k	--	37k	--
09/07	Unemployment Rate	Aug	3.80%	--	3.90%	--
09/07	Underemployment Rate	Aug	--	--	7.50%	--
09/07	Average Hourly Earnings YoY	Aug	--	--	2.70%	--
09/07	Average Weekly Hours All Employees	Aug	34.50	--	34.50	--
09/07	Labor Force Participation Rate	Aug	--	--	62.90%	--

MBS Prepayments <sup>4</sup>						
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	14.4	22.7
FH/FN 15y	7.6	7.7	7.4	9.2	14.1	22.5
GN 15y	11.4	10.1	12.5	14.5	14.0	13.8
FH/FN 20y	0.1	6.7	7.6	10.1	13.1	14.0
FH/FN 30y	4.9	5.5	6.1	6.7	9.0	12.0
GN 30y	9.7	8.0	9.1	11.4	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	110.97	0.90	111.05	107.33	109.25
Euro	1.17	0.02	1.17	1.22	1.20
Dollar Index	95.03	(0.87)	94.67	90.36	92.74
<b>Major Stock Indices</b>					
Dow Jones	25,948	189	25,451	25,410	21,814
S&P 500	2,874.7	17.6	2,818.8	2,744.3	2,443.1
NASDAQ	7,994.6	174	7,737.4	7,330.4	6,265.6
<b>Commodities</b>					
Gold	1,206.0	19.2	1,223.0	1,318.6	1,292.5
Crude Oil	68.83	2.40	68.69	63.01	47.87
Natural Gas	2.89	(0.06)	2.82	2.68	2.89
Wheat	507.0	-35.3	530.5	463.3	409.5
Corn	345.3	-16.8	362.0	370.5	338.8

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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