

## Baker Market Update: Week in Review

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In the last Jobs Report before the onset of college football season, the Bureau of Labor Statistics (BLS) came out with a little bit of a pre-season surprise, and not a particularly good one. The better news is, it's not a particularly bad one, either. The not-so-good part is that job creation, as measured by Non-Farm Payrolls, disappointed the market estimators that were expecting a gain of 193k. For those expecting something below the published 157k, well, they're less disappointed. There's a lesson in there somewhere about the relationship between expectations and happiness.

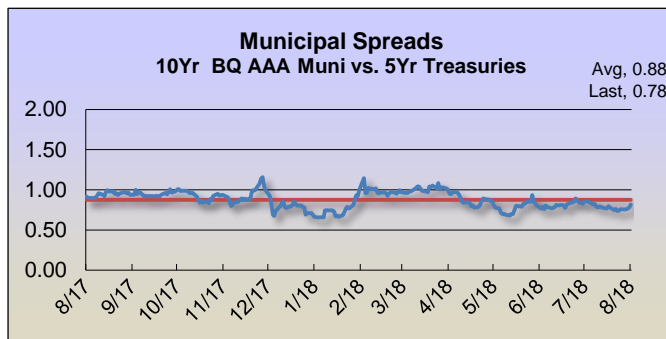
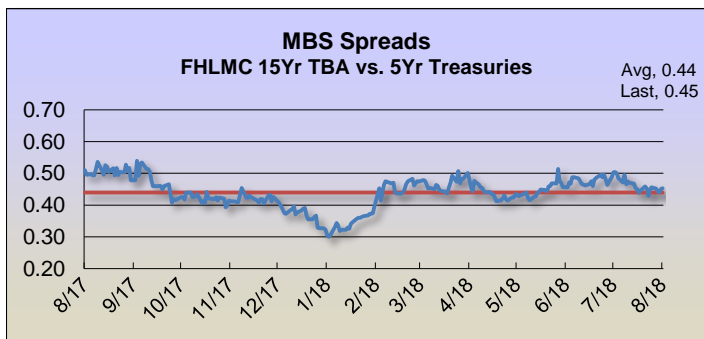
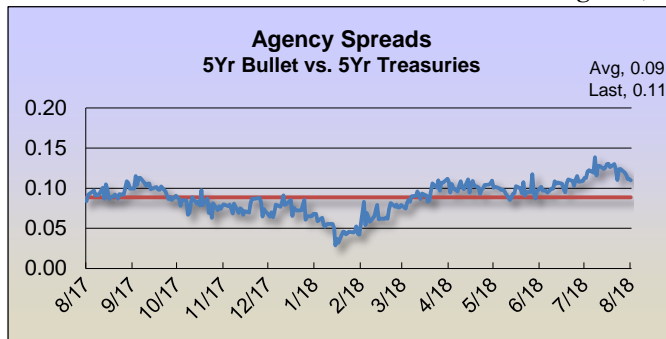
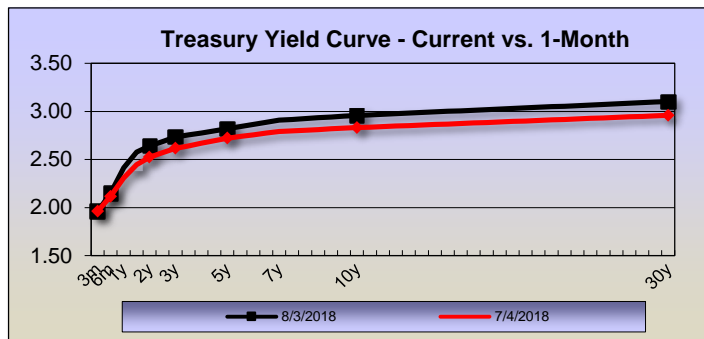
For those that ascribe statistical validity to the Unemployment Rate, their mood has been brightened by the 0.1% drop in that measure; taking it to 3.9%. The beauty of that calculation is that even though the payroll count only went up by 157k, the number of unemployed people fell by 284k. Through the eyes of the BLS, there's more than one way to leave the ranks of the unemployed. Finding a job is one way, and becoming discouraged is another, and last month, the discouragement count went up by 153k. Others who are jobless but not counted as such fall into the category of "marginally attached to the labor force". Their universe grew by 61k. The BLS should send those folks a note explaining how even though jobless, they're not really unemployed. And a workweek isn't what it used to be either. That fell by 0.2%; the first such decline since January.

But, the U.S. economy has been definitionally fully-employed for quite a while now, so what really matters, are wages. For the month of July, Average Hourly Earnings rose by 0.3%, and while that's kind of, sort of, pretty good, the year-over-year growth rate remained unchanged at 2.7%. The FOMC would probably be happy if the annualized inflation rate had stayed unchanged, but it didn't. The year-over-year read for the "core" Personal Consumption Expenditures Index (PCE) suffered a slight slip to 1.9% from 2%, despite the rise of 0.1% in the monthly measure. The latest month being measured in this week's report, by the way, was June.

Also for June, we learned from the Bureau of Economic Analysis that the 0.4% rise in Personal Income was matched by an identical rise in Personal Spending. For Americans, that's almost like saving money. Almost. But, there was no "almost" in Construction Spending's unexpected drop of 1.1% nor the fall of the ISM Manufacturing Index to 58.1 from 60.2. From the viewpoint of consumers, the Conference Board reported that while its overall Confidence Index moved up slightly, the Expectations sub-index cratered to 101.7 from 104. So, while folks are feeling pretty good about the way things are at the moment, they are much less sanguine about how they're going to feel on down the road. In what is clearly a reaction to the recently announced controversy surrounding Ohio State's football coach, the University of Michigan's Index of Consumer Expectations went the *other* way, moving up to 87.3 from 86.4.

Gridiron giddiness aside, Factory Orders picked up by 0.7% with Durable Goods rising by 0.8% while annualized Vehicle Sales slipped to 16.68M from 17.38M. Talk of such things invariably brings to mind the prospects of trade war escalation and just today, China announced its plans to slap some retaliatory tariffs on a wide variety of American goods if the Trump Administration follows through on its tariff threats. It's easy to lose track of which tariffs apply to which threats. Along with rising trade tensions, the Bank of England has raised its benchmark policy rate for the second time this year as the United Kingdom's central bankers are more worried about rising inflation than they are about trade wars.

For those that *are* concerned about trade wars, some kind of resolution needs to be reached and it needs to be reached pretty soon. Oklahoma State University opens its football season on August 30<sup>th</sup>, and after that, nobody is going to care about who's buying the world's soybeans. Join us on Monday morning for coffee, and we'll check to see if the Ten-Year Groundhog is still afraid of its 3% shadow. Until then, have a great weekend 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	1.96	(0.03)	1.97	1.48	1.08	2yr	2.69	2.87	2.30	2.44	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.15	(0.03)	2.12	1.63	1.14	3yr	2.78	2.93	2.49	2.65	26.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.41	0.01	2.31	1.87	1.22	5yr	2.92	2.96	2.79	2.97	35.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.64	(0.03)	2.53	2.14	1.34	7yr	3.05	2.99	3.11	3.31	54.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.73	(0.03)	2.62	2.32	1.49	10yr	3.25	3.03	3.47	3.70	72.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.82	(0.02)	2.72	2.59	1.79	15yr	3.36	3.07	3.86	4.11	99.00	September TBA MBS				
7yr	2.91	(0.01)	2.79	2.77	2.04	20yr	3.46	3.08	4.12	4.38	99.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.96	0.00	2.83	2.84	2.22	25yr	3.57	3.07	4.19	4.46	101.00	2.00	3.31	5.0y		
30yr	3.10	0.02	2.96	3.09	2.80	30yr		3.05	4.27	4.54	103.00	2.50	3.15	5.2y		
												3.00	3.16	5.1y	3.46	9.8y
												3.50	3.09	2.8y	3.61	9.0y
												4.00			3.70	7.3y
												4.50			3.72	6.0y

\* 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	2.08	--	2.10	1.58	1.23
3 Month LIBOR	2.34	--	2.34	1.79	1.31
6 Month LIBOR	2.53	--	2.51	1.99	1.45
1 Year LIBOR	2.83	0.01	2.77	2.29	1.73
6 Month CD	2.52	0.01	2.50	1.98	1.43
1 Year CMT	2.45	0.04	2.34	1.88	1.24
REPO O/N	1.97	0.07	2.07	1.24	1.07
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	2.21	2.33	2.17	2.32	Aug-18	1.915
6mo	2.37	2.48	2.34	2.49	Sep-18	1.945
1yr	2.69	2.66	2.58	2.74	Oct-18	2.140
2yr	2.87	3.04	2.88	3.08	Nov-18	2.145
3yr	2.96	3.16	3.02	3.19	Dec-18	2.215
4yr	3.02	3.23	3.09	3.25	Jan-19	2.320
5yr	3.07	3.28	3.11	3.28	Feb-19	2.340
7yr	3.30	3.55	3.32	3.44	Mar-19	2.385
10yr	3.46	3.73	3.45	3.60	Apr-19	2.480
5yr Am	2.99		3.03	3.23	May-19	2.505
10yr Am	3.31		3.30	3.52	Jun-19	2.545

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
07/30	Pending Home Sales NSA YoY	Jun	--	-4.00%	-2.80%	--
07/31	Personal Income	Jun	0.40%	0.40%	0.40%	--
07/31	Real Personal Spending	Jun	0.40%	0.30%	0.00%	0.30%
07/31	PCE Deflator YoY	Jun	2.30%	2.20%	2.30%	2.20%
07/31	PCE Core YoY	Jun	2.00%	1.90%	2.00%	1.90%
07/31	Employment Cost Index	2Q	0.70%	0.60%	0.80%	--
07/31	S&P CoreLogic CS 20-City YoY NSA	May	6.40%	6.51%	6.56%	6.69%
07/31	S&P CoreLogic CS US HPI YoY NSA	May	--	6.38%	6.41%	6.39%
07/31	Conf. Board Consumer Confidence	Jul	126.00	127.40	126.40	127.10
07/31	Conf. Board Present Situation	Jul	--	165.90	161.40	161.70
08/01	MBA Mortgage Applications	7/27	--	-2.60%	-0.20%	--
08/01	ADP Employment Change	Jul	186k	219k	177k	181k
08/01	Markit US Manufacturing PMI	Jul F	55.50	55.30	55.50	--
08/01	ISM Manufacturing	Jul	59.40	58.10	60.20	--
08/01	ISM Employment	Jul	--	56.50	56.00	--
08/01	ISM Prices Paid	Jul	75.30	73.20	76.80	--
08/01	ISM New Orders	Jul	--	60.20	63.50	--
08/01	FOMC Rate Decision (Upper Bound)	8/1	2.00%	2.00%	2.00%	--
08/01	FOMC Rate Decision (Lower Bound)	8/1	1.75%	1.75%	1.75%	--
08/02	Challenger Job Cuts YoY	Jul	--	-4.20%	19.60%	--
08/02	Initial Jobless Claims	7/28	220k	218k	217k	--
08/02	Continuing Claims	7/21	1750k	1724k	1745k	1747k
08/02	Factory Orders Ex Trans	Jun	--	0.40%	0.70%	0.80%
08/02	Durables Ex Transportation	Jun F	--	0.20%	0.40%	--
08/02	Cap Goods Ship Nondef Ex Air	Jun F	--	0.70%	1.00%	--
08/03	Trade Balance	Jun	-\$46.5b	-\$46.3b	-\$43.1b	-\$43.2b
08/03	Change in Nonfarm Payrolls	Jul	193k	157k	213k	248k
08/03	Two-Month Payroll Net Revision	Jul	--	59k	--	--
08/03	Change in Private Payrolls	Jul	190k	170k	202k	234k
08/03	Change in Manufact. Payrolls	Jul	25k	37k	36k	33k
08/03	Unemployment Rate	Jul	3.90%	3.90%	4.00%	--
08/03	Underemployment Rate	Jul	--	7.50%	7.80%	--
08/03	Average Hourly Earnings YoY	Jul	2.70%	2.70%	2.70%	--
08/03	Average Weekly Hours All Employees	Jul	34.50	34.50	34.50	34.60
08/03	Labor Force Participation Rate	Jul	--	62.90%	62.90%	--
08/03	Markit US Composite PMI	Jul F	--	55.70	55.90	--
08/03	ISM Non-Manf. Composite	Jul	58.60	55.70	59.10	--
08/07	JOLTS Job Openings	Jun	--	--	6638.00	--
08/09	PPI Final Demand YoY	Jul	3.40%	--	3.40%	--
08/09	PPI Ex Food and Energy YoY	Jul	2.80%	--	2.80%	--
08/09	PPI Ex Food, Energy, Trade YoY	Jul	--	--	2.70%	--
08/10	CPI YoY	Jul	3.00%	--	2.90%	--
08/10	CPI Ex Food and Energy YoY	Jul	2.30%	--	2.30%	--
08/10	CPI Index NSA	Jul	251.90	--	251.99	--
08/10	CPI Core Index SA	Jul	--	--	257.31	--
08/10	Real Avg Weekly Earnings YoY	Jul	--	--	0.20%	0.50%
08/10	Real Avg Hourly Earning YoY	Jul	--	--	0.00%	--

MBS Prepayments <sup>4</sup>						
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	13.8	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	15.9	16.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.2	11.3	12.0	17.4	14.9	21.9
FH/FN 15y	7.4	7.9	8.5	11.2	14.1	24.0
GN 15y	11.5	10.1	12.4	14.4	13.8	13.4
FH/FN 20y	0.1	6.7	7.7	9.4	12.1	14.3
FH/FN 30y	4.9	5.6	6.0	7.0	9.9	12.9
GN 30y	8.3	7.9	8.9	11.0	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	111.15	0.10	110.59	109.09	110.05
Euro	1.16	(0.01)	1.17	1.24	1.19
Dollar Index	95.04	0.37	94.59	89.20	92.84
<b>Major Stock Indices</b>					
Dow Jones	25,392	(59)	24,175	25,521	22,026
S&P 500	2,831.3	12.4	2,713.2	2,762.1	2,472.2
NASDAQ	7,802.6	65	7,502.7	7,240.9	6,340.3
<b>Commodities</b>					
Gold	1,218.4	(4.6)	1,253.5	1,333.7	1,267.8
Crude Oil	68.72	0.03	74.14	65.45	49.03
Natural Gas	2.86	0.03	2.87	2.85	2.80
Wheat	561.0	30.5	491.5	446.8	457.8
Corn	368.8	6.8	342.8	361.5	363.5

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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