

## Baker Market Update: Week in Review

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If visitors to Washington D.C. happen to wander past the Marriner S. Eccles Building this morning, they probably won't see a "Mission Accomplished" banner draped across the Doric columns that grace the entranceway. But, with the announcement this week by the Bureau of Economic Analysis (BEA) that core inflation has reached the long-sought-after level of 2%, many feel that some kind of garish display of recognition may be in order. Others don't. One of those others is probably the guy whose name is on the parking spot closest to the employees' entrance. Even before the arbitrary 2% target was gained, Jerome Powell had already begun talking about the uncertainty of it remaining there. Others believe that last month's move in the Personal Consumption Expenditures (PCE) Index is just the tip of the iceberg and that many of the "felt rather than seen" drivers of inflation will now be demonstrable to all.

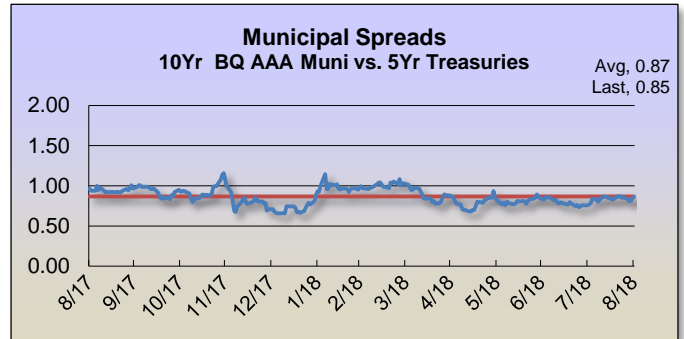
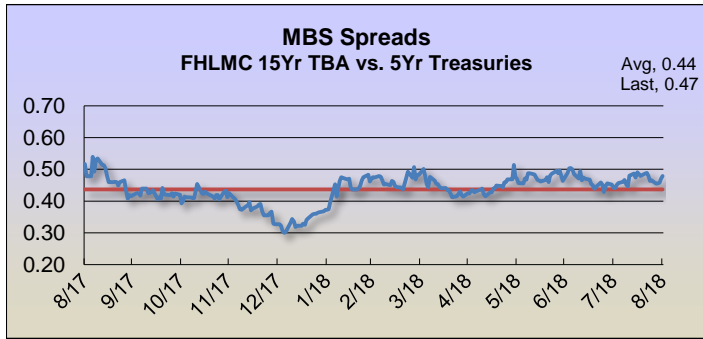
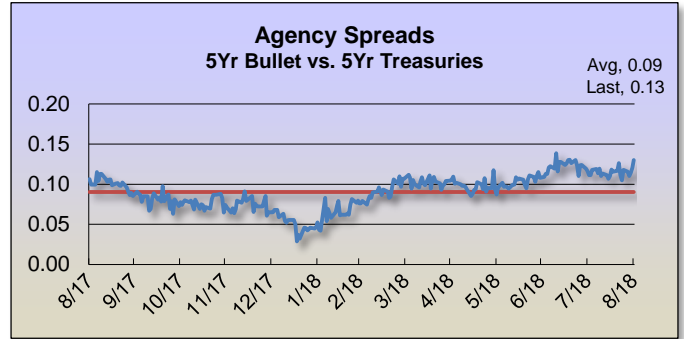
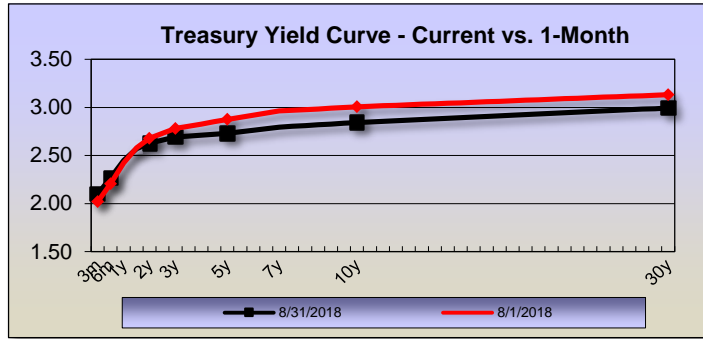
In a different kind of demonstration, it was shown this week that the three amigos of NAFTA may not be quite as *simpatico* as was previously thought. A tentative trade deal between Mexico and America was announced this week with the most prominent feature of the agreement being that Canada was left out of it. But, in the true spirit of neighborly goodwill, President Trump has given the Canadian government a deadline of today to either get on board or pound sand. At the moment, it is unclear which outcome awaits, but an unnamed Canadian trade minister has been quoted as saying that the discussions have reached "an intense rhythm." What the heck does that mean? The patrons at this weekend's annual World Barbeque Championship and Goat Roast in Brady, Texas know that *mariachi* bands have an intense rhythm, but the *patrons* in Ottawa may have already had their fill of *Cielito Lindo*.

That situation will either be resolved or it won't, but nothing happens to NAFTA without the blessings of Congress, and that could open up a whole 'nother can o' worms. So far, worms are not on the list of imports subject to the new Presidential tariffs, and they don't actually come in cans, anyway. For other things bought and sold, America bought more from others than it sold last month as the nation's negative Trade Balance grew from a shortfall of \$68B to a new and shorter-fall of \$72.2B. Now may be a good time to remember that President Trump has already told us that trade wars are easy to win.

According to the Conference Board, Americans have adopted a winning attitude as we learned that Consumer Confidence unexpectedly leaped to 133.4 from 127.9. The sub-indices of Present Situations and Expectations experienced similar upward mobility and provided some statistical confirmation of the overall survey outcome. Upward mobility itself may be fleeting, however, when people spend more than they make. In July, Personal Income's rise of 0.3% came in a little short of Personal Spending's increase of 0.4%. But, adjusted for our new and higher level of inflation, *Real* Personal Spending only rose by 0.2%.

So, with consumers apparently looking at a brighter future, we also learned that the past has brightened a bit. The much lauded Q2 GDP growth rate of 4.1% was revised to 4.2%. What about Q3? Well, so far, the smart guys at the Atlanta Fed are estimating a reprise of Q2. But, the smart guys at the New York Fed are only estimating about half of that. Hmmm.

Another item on the list of things that make you say "Hmmm" is the behavior of the Treasury market this week. With inflation on the rise, growth on the rise, consumer confidence on the rise, and a record-setting stock market on the rise, it should be obvious to *everyone* that interest rates have to be on the rise, too. And it may be thus, but not to credit markets. The Ten-Year Treasury note will wind up the week yielding less than it did at the beginning of the week. After seeing that inflation is moving in the desired direction and that growth is even better than we thought and that we can bend the behavior of other nations to our will, why are bond *prices* moving higher? Maybe the bond market, with its tendency towards a reality-based provenance, knows that the mission is far from accomplished. Happy Labor Day to everyone, 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	0.01	2.02	1.66	0.99	2yr	2.67	2.82	2.38	2.53	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.27	0.03	2.19	1.85	1.08	3yr	2.74	2.86	2.53	2.70	27.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.45	0.02	2.41	2.06	1.22	5yr	2.83	2.87	2.83	3.01	39.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.63	0.01	2.67	2.25	1.33	7yr	2.93	2.88	3.11	3.31	55.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.69	0.02	2.77	2.41	1.45	10yr	3.12	2.91	3.42	3.64	74.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.73	0.02	2.85	2.64	1.70	15yr	3.23	2.95	3.79	4.04	105.00	September TBA MBS				
7yr	2.79	0.03	2.93	2.80	1.94	20yr	3.33	2.96	4.07	4.34	98.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.84	0.03	2.96	2.86	2.12	25yr	3.43	2.95	4.16	4.43	100.00	2.00	3.29	5.0y		
30yr	2.99	0.03	3.08	3.13	2.73	30yr		2.94	4.24	4.51	102.00	2.50	3.07	5.3y		
												3.00	3.10	5.5y	3.41	9.7y
												3.50	3.24	5.2y	3.56	9.4y
												4.00			3.69	7.9y
												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	1.93				
1 Month LIBOR	2.10	0.04	2.08	1.67	1.24
3 Month LIBOR	2.32	--	2.34	2.02	1.32
6 Month LIBOR	2.53	0.02	2.53	2.22	1.45
1 Year LIBOR	2.84	0.03	2.82	2.50	1.71
6 Month CD	2.50	0.02	2.49	2.21	1.42
1 Year CMT	2.47	0.04	2.43	2.07	1.23
REPO O/N	2.03	--	1.94	1.43	1.12
REPO 1Wk	1.98	--	1.98	1.52	1.20
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	2.29	2.42	2.17	2.37	Aug-18	1.915
6mo	2.42	2.53	2.34	2.55	Sep-18	1.955
1yr	2.69	2.66	2.58	2.74	Oct-18	2.160
2yr	2.82	2.99	2.88	3.03	Nov-18	2.160
3yr	2.87	3.06	3.02	3.10	Dec-18	2.230
4yr	2.91	3.11	3.09	3.14	Jan-19	2.335
5yr	2.96	3.16	3.11	3.16	Mar-19	2.390
7yr	3.16	3.40	3.32	3.30	Apr-19	2.470
10yr	3.31	3.57	3.45	3.45	May-19	2.495
5yr Am	2.90		3.03	3.14	Jun-19	2.525
10yr Am	3.17		3.30	3.39	Jul-19	2.575

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
08/27	Chicago Fed Nat Activity Index	Jul	45.00%	13.00%	<del>43.00%</del>	48.00%
08/28	Advance Goods Trade Balance	Jul	-\$69.0b	-\$72.2b	<del>-\$68.3b</del>	-\$67.9b
08/28	S&P CoreLogic CS 20-City YoY NSA	Jun	6.40%	6.31%	<del>6.51%</del>	6.54%
08/28	S&P CoreLogic CS US HPI YoY NSA	Jun	--	6.24%	6.38%	--
08/28	Richmond Fed Manufact. Index	Aug	17.00	24.00	20.00	--
08/28	Conf. Board Consumer Confidence	Aug	126.60	133.40	<del>127.40</del>	127.90
08/28	Conf. Board Present Situation	Aug	--	172.20	<del>165.90</del>	166.10
08/28	Conf. Board Expectations	Aug	--	107.60	<del>104.70</del>	102.40
08/29	MBA Mortgage Applications	8/24	--	-1.70%	4.20%	--
08/29	GDP Annualized QoQ	2Q S	4.00%	4.20%	4.10%	--
08/29	Personal Consumption	2Q S	3.90%	3.80%	4.00%	--
08/29	GDP Price Index	2Q S	3.00%	3.00%	3.00%	--
08/29	Core PCE QoQ	2Q S	2.00%	2.00%	2.00%	--
08/29	Pending Home Sales NSA YoY	Jul	-2.50%	-0.50%	-4.00%	--
08/30	Personal Income	Jul	0.40%	0.30%	0.40%	--
08/30	Personal Spending	Jul	0.40%	0.40%	0.40%	--
08/30	Real Personal Spending	Jul	0.20%	0.20%	0.30%	--
08/30	PCE Deflator YoY	Jul	2.30%	2.30%	2.20%	--
08/30	PCE Core YoY	Jul	2.00%	2.00%	1.90%	--
08/30	Initial Jobless Claims	8/25	212k	213k	210k	--
08/30	Continuing Claims	8/18	1725k	1708k	<del>1727k</del>	1728k
08/30	Bloomberg Consumer Comfort	8/26	--	58.30	58.60	--
08/31	Chicago Purchasing Manager	Aug	63.00	63.60	65.50	--
08/31	U. of Mich. Current Conditions	Aug F	--	110.30	107.80	--
08/31	U. of Mich. 1 Yr Inflation	Aug F	--	3.00%	2.90%	--
09/04	Markit US Manufacturing PMI	Aug F	--	--	54.50	--
09/04	ISM Manufacturing	Aug	57.70	--	58.10	--
09/04	ISM Employment	Aug	--	--	56.50	--
09/04	ISM Prices Paid	Aug	69.50	--	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	190k	--	219k	--
09/06	Nonfarm Productivity	2Q F	2.90%	--	2.90%	--
09/06	Initial Jobless Claims	9/1	213k	--	213k	--
09/06	Continuing Claims	8/25	--	--	1708k	--
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	187k	--	157k	--
09/07	Two-Month Payroll Net Revision	Aug	--	--	59k	--
09/07	Change in Private Payrolls	Aug	192k	--	170k	--
09/07	Change in Manufact. Payrolls	Aug	25k	--	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%	--	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	11.5	12.2	17.7	14.4	22.7
FH/FN 15y	7.6	7.7	7.4	9.1	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	6.6	9.0	12.0
GN 30y	9.7	7.9	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	110.87	(0.37)	111.86	106.68	109.98
Euro	1.16	(0.00)	1.17	1.22	1.19
Dollar Index	95.07	(0.08)	94.55	90.61	92.67
<b>Major Stock Indices</b>					
Dow Jones	25,937	147	25,415	25,029	21,948
S&P 500	2,900.3	25.6	2,816.3	2,713.8	2,471.7
NASDAQ	8,100.0	154	7,671.8	7,273.0	6,428.7
<b>Commodities</b>					
Gold	1,202.1	(4.2)	1,223.7	1,317.9	1,318.5
Crude Oil	69.95	1.23	68.76	61.64	47.23
Natural Gas	2.92	0.00	2.78	2.67	3.04
Wheat	517.3	2.5	553.8	484.5	410.3
Corn	347.5	-1.0	372.3	374.5	342.3

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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