

Baker Market Update: Week in Preview

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The dog days of summer are upon us. In America, that means it's hot just about everywhere. Why is it though, that we feel so much more uncomfortable when we know it's 101 compared to when it's only 99. Either way, it's pretty hot. Somehow, *knowing* it's over 100 degrees makes it seem worse. Maybe we're seeing the same kind of psychological implications with bond yields. To many, a Ten-Year Treasury Note yielding less than 3% means that longer-term inflationary expectations are pretty mild and with it, longer-term growth expectations for the economy in general. If investors in the Treasury market take that yield *higher* than 3%, it might be interpreted by some that higher inflation, fueled by higher growth, is our unavoidable fate. It may only be a few basis points, but for many investors, 3.01% feels a lot more uncomfortable than 2.98%.

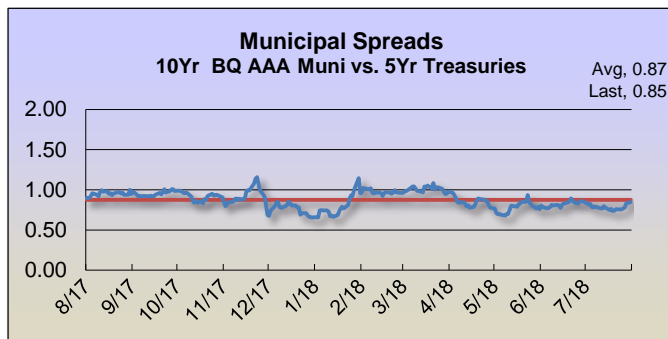
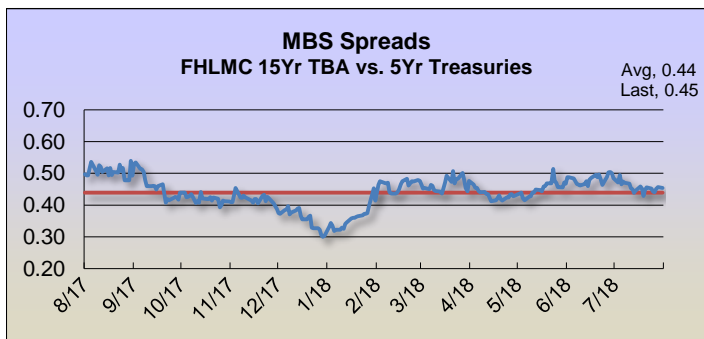
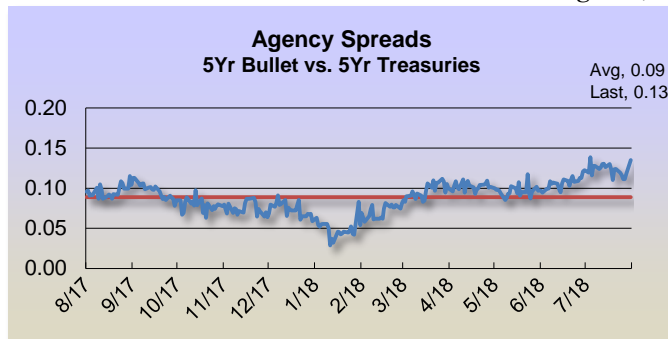
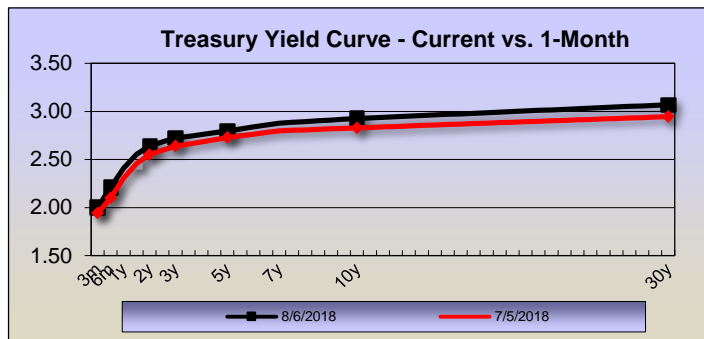
This morning, that 3% boogeyman isn't scaring anyone as early trading has produced a little bond rally and pushed that the Ten-Year below 2.95%. Looks like a cool front might be coming in just as the trade war is heating up. Over the weekend, President Trump and other administration officials vowed to keep the heat turned up on tariffs, prompting state-run media outlets to declare that China is prepared for a "protracted war" and is also willing to endure some short-term economic pain as it fights that war.

Later this week, we'll learn how much inflationary pain Americans are feeling with a Thursday report on the Producer Price Index (PPI) followed by Friday's Consumer Price Index. The year-over-year core rates of 2.8% for PPI and 2.3% for CPI are not expected to change. Before that, though, we'll be learning tomorrow from the Bureau of Labor Statistics (BLS) that its Job Openings and Labor Turnover Survey is showing a slight decline in new job openings with a new report on Consumer Credit coming out Tuesday afternoon. In that report from the Federal Reserve, it is expected to show a significant slowdown in the pace of consumer borrowing after last month's unexpected spike. The question on the minds of many is whether or not consumption will experience a similar slowdown.

Things tend to slowdown when purchasing power declines. We'll find out this Friday how much the 2.7% wage gain reported *last* Friday is really affecting Americans when we get a new report for inflation-adjusted Real Average Hourly Earnings. In the meantime, the Treasury shows no signs of slowing down it's borrowings with new and bigger auctions of threes, tens, and thirties along with the usual, and now bigger, weekly bill auctions.

If all this new and bigger supply is supposed to push yields up, it's not happening today. But the new, Five-year Breakeven Inflation Rate published by Bloomberg is, and, it's a nudge less than 2%; much more comfortable than a nudge over would be.

Stay in the shade this week, and please join us for lunch on Friday. 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	2.00	0.02	1.95	1.52	1.07	2yr	2.70	2.86	2.30	2.44	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.21	0.02	2.11	1.69	1.14	3yr	2.77	2.92	2.49	2.65	26.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.41	(0.00)	2.31	1.86	1.22	5yr	2.90	2.94	2.79	2.97	35.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.64	(0.02)	2.54	2.11	1.35	7yr	3.02	2.96	3.11	3.31	54.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.72	(0.04)	2.63	2.29	1.51	10yr	3.21	3.00	3.47	3.70	72.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.80	(0.05)	2.72	2.54	1.82	15yr	3.34	3.04	3.86	4.11	99.00	September TBA MBS				
7yr	2.88	(0.06)	2.79	2.71	2.08	20yr	3.47	3.05	4.12	4.38	99.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.93	(0.05)	2.82	2.80	2.26	25yr	3.59	3.04	4.19	4.46	101.00	2.00	3.31	5.0y		
30yr	3.07	(0.04)	2.93	3.07	2.84	30yr		3.02	4.27	4.54	103.00	2.50	3.13	5.2y		
												3.00	3.14	5.0y	3.44	9.8y
												3.50	3.06	2.8y	3.59	9.0y
												4.00			3.69	7.3y
												4.50			3.70	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	1.86				
1 Month LIBOR	2.08	--	2.09	1.58	1.23
3 Month LIBOR	2.34	--	2.34	1.79	1.31
6 Month LIBOR	2.52	--	2.51	1.99	1.45
1 Year LIBOR	2.83	--	2.77	2.29	1.73
6 Month CD	2.52	0.01	2.50	1.99	1.43
1 Year CMT	2.43	--	2.33	1.88	1.22
REPO O/N	1.94	0.32	1.97	1.35	1.06
REPO 1Wk	1.98	--	1.99	1.46	1.24
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	2.34	2.17	2.33	Aug-18	1.915
6mo	2.38	2.49	2.34	2.51	Sep-18	1.950
1yr	2.70	2.67	2.58	2.74	Oct-18	2.140
2yr	2.86	3.03	2.88	3.07	Nov-18	2.150
3yr	2.94	3.13	3.02	3.16	Dec-18	2.220
4yr	3.00	3.20	3.09	3.22	Jan-19	2.320
5yr	3.04	3.25	3.11	3.25	Feb-19	2.340
7yr	3.26	3.51	3.32	3.42	Mar-19	2.390
10yr	3.43	3.69	3.45	3.57	Apr-19	2.480
5yr Am	2.97		3.03	3.21	May-19	2.505
10yr Am	3.28		3.30	3.50	Jun-19	2.545

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
08/07	JOLTS Job Openings	Jun	6625.00	--	6638.00	--
08/07	Consumer Credit	Jun	\$15.000b	--	\$24.559b	--
08/08	MBA Mortgage Applications	8/3	--	--	-2.60%	--
08/09	Initial Jobless Claims	8/4	220k	--	218k	--
08/09	Continuing Claims	7/28	1735k	--	1724k	--
08/09	PPI Ex Food and Energy MoM	Jul	0.20%	--	0.30%	--
08/09	PPI Ex Food, Energy, Trade MoM	Jul	0.20%	--	0.30%	--
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%	--
08/09	Bloomberg Consumer Comfort	8/5	--	--	58.60	--
08/10	CPI YoY	Jul	2.90%	--	2.90%	--
08/10	CPI Ex Food and Energy YoY	Jul	2.30%	--	2.30%	--
08/10	CPI Index NSA	Jul	251.97	--	251.99	--
08/10	CPI Core Index SA	Jul	257.80	--	257.31	--
08/10	Real Avg Weekly Earnings YoY	Jul	--	--	0.20%	0.50%
08/10	Real Avg Hourly Earning YoY	Jul	--	--	0.00%	--
08/10	Monthly Budget Statement	Jul	-\$77.5b	--	-\$74.9b	--
08/13	Mortgage Delinquencies	2Q	--	--	4.63%	--
08/13	MBA Mortgage Foreclosures	2Q	--	--	1.16%	--
08/14	NFIB Small Business Optimism	Jul	--	--	107.20	--
08/14	Import Price Index YoY	Jul	--	--	4.30%	--
08/14	Export Price Index YoY	Jul	--	--	5.30%	--
08/15	MBA Mortgage Applications	8/10	--	--	--	--
08/15	Nonfarm Productivity	2Q P	2.50%	--	0.40%	--
08/15	Empire Manufacturing	Aug	20.30	--	22.60	--
08/15	Retail Sales Advance MoM	Jul	0.20%	--	0.50%	--
08/15	Unit Labor Costs	2Q P	0.30%	--	2.90%	--
08/15	Retail Sales Ex Auto and Gas	Jul	--	--	0.30%	--
08/15	Retail Sales Control Group	Jul	--	--	0.00%	--
08/15	Industrial Production MoM	Jul	0.20%	--	0.60%	--
08/15	Capacity Utilization	Jul	78.10%	--	78.00%	--
08/15	Manufacturing (SIC) Production	Jul	--	--	0.80%	--
08/15	Business Inventories	Jun	0.10%	--	0.40%	--
08/15	NAHB Housing Market Index	Aug	67.00	--	68.00	--
08/15	Total Net TIC Flows	Jun	--	--	\$69.9b	--
08/15	Net Long-term TIC Flows	Jun	--	--	\$45.6b	--
08/16	Initial Jobless Claims	8/11	--	--	--	--
08/16	Continuing Claims	8/4	--	--	--	--
08/16	Philadelphia Fed Business Outlook	Aug	22.50	--	25.70	--
08/16	Housing Starts	Jul	1280k	--	1173k	--
08/16	Building Permits	Jul	1310k	--	1273k	1292k
08/16	Bloomberg Economic Expectations	Aug	--	--	53.50	--
08/16	Bloomberg Consumer Comfort	8/12	--	--	--	--
08/17	Leading Index	Jul	0.40%	--	0.50%	--
08/17	U. of Mich. Current Conditions	Aug P	--	--	114.40	--
08/17	U. of Mich. 1 Yr Inflation	Aug P	--	--	2.90%	--

MBS Prepayments ⁴						
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	11.4	12.0	17.4	14.9	21.9
FH/FN 15y	7.4	7.9	8.5	11.3	14.1	24.0
GN 15y	11.5	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	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
Currencies					
Japanese Yen	111.45	0.41	110.47	109.56	110.75
Euro	1.16	(0.02)	1.17	1.24	1.18
Dollar Index	95.46	1.12	93.96	89.59	93.54
Major Stock Indices					
Dow Jones	25,391	84	24,456	24,913	22,093
S&P 500	2,839.9	37.3	2,759.8	2,695.1	2,476.8
NASDAQ	7,827.3	197	7,688.4	7,115.9	6,351.6
Commodities					
Gold	1,208.4	(12.9)	1,255.8	1,326.1	1,258.3
Crude Oil	69.07	(1.06)	73.80	63.39	49.58
Natural Gas	2.85	0.05	2.86	2.76	2.77
Wheat	569.5	23.0	512.8	446.3	454.8
Corn	370.0	2.8	351.8	363.5	366.5

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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