

## Baker Market Update: Week in Preview

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Maybe it's because the Kansas Jayhawks won a football game; or maybe it's because the Cleveland Browns didn't lose one. Whatever the reason, the early price action in both credit and equity markets seems a lot more stable than where we left it last Friday. But, it's early, and there's plenty of time for Friday's blues to become Monday's. Tesla shareholders aside, what potential potholes await investors this week?

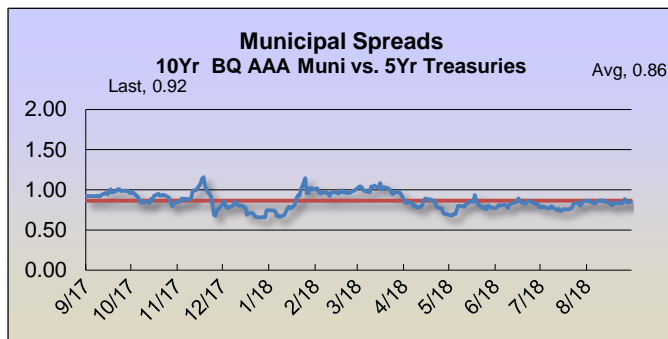
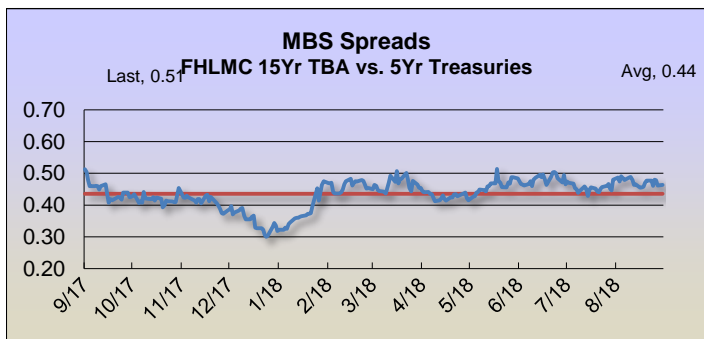
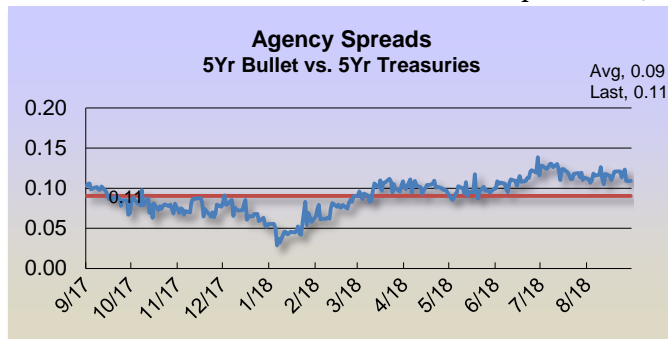
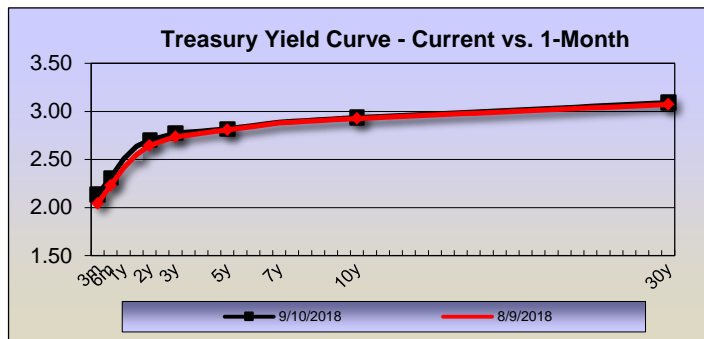
Financial news is pretty light today, but the Federal Reserve will release the latest on Consumer Credit this afternoon. This reporting period will be for July and experts are expecting a significant increase following a significant and unexpected decline in June. This is no small thing since 70% of American GDP comes from consumptive consumers and credit is the fuel for much of that consumption. Another, yet more indirect reflection of consumer behavior will be evidenced on Tuesday when the National Federation of Independent Businesses releases its Small Business Optimism Index. If consumers are feeling good, it tends to follow that the small businesses that cater to them will share in the elevated mood. Also tomorrow, the Bureau of Labor Statistics is back at it with the release of its Job Openings and Labor Turnover Survey. A modest increase in that measure is expected and such increases, whether modest or not, are considered a healthy sign of a healthy labor market.

A modest degree of inflation is also seen as a symptom of macro-economic health and we've recently seen the Central Bank's desire for that symptom come to fruition through the recently announced 2% level of the Personal Consumption Expenditures Price Index. This week, we'll expect that to be reinforced with Wednesday's release of the Producer Price Index followed by a Consumer Price Index report on Thursday. Both measures, at the core level, are expected to show monthly gains of around .2%. We'll also see how the arrival of the much-longed-for inflation has cut into the spending power of consumers. Fresh reports for *Real* (inflation adjusted) Average Weekly & Hourly Earnings are also scheduled for Thursday. Readers may recall that the brightest spot in last week's Jobs Report was the greater than expected increase in wages. This week's earnings report may help markets discern if consumers are actually gaining any ground. The regional round-up of Fed district conditions, also known as the Beige Book, will be published mid-week and, true to its name, is expected to go with everything.

Friday is shaping up to be a big news day with fresh reports for Retail Sales (a half percent increase is expected), along with a significant increase for Industrial Production and greater improvement in Consumer Sentiment from the University of Michigan. After all, the Wolverines bounced back with nice win on Saturday.

As bonds try to recover some of the ground lost on Friday, the Ten-Year yield is a nudge under 2.95%. But, if all the good news expected to come our way this week actually comes our way this week, it may have trouble staying below the psychologically significant 3% level. Stranger things have happened; after all, the Browns played a football game on Sunday, and didn't lose.

Don't forget to join us for lunch on Friday. Until then, 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	2.13	0.04	2.05	1.66	1.04	2yr	2.76	2.90	2.52	2.68	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.31	0.04	2.22	1.87	1.14	3yr	2.83	2.95	2.66	2.83	27.00	3Yr	2.10	2.11	2.11	2.10
1yr	2.51	0.06	2.40	2.02	1.20	5yr	2.92	2.95	2.91	3.10	37.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.70	0.07	2.61	2.26	1.26	7yr	3.02	2.96	3.19	3.40	54.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.77	0.08	2.68	2.43	1.39	10yr	3.22	3.00	3.49	3.71	75.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.82	0.08	2.75	2.65	1.63	15yr	3.33	3.04	3.85	4.10	106.00	October TBA MBS				
7yr	2.89	0.08	2.82	2.81	1.88	20yr	3.45	3.05	4.17	4.44	98.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.94	0.07	2.87	2.89	2.05	25yr	3.57	3.04	4.26	4.53	100.00	2.00	3.36	5.0y		
30yr	3.09	0.07	3.03	3.16	2.67	30yr		3.02	4.34	4.62	102.00	2.50	3.15	5.2y		
												3.00	3.15	5.5y	3.49	9.8y
												3.50	3.29	5.2y	3.63	9.5y
												4.00			3.76	8.0y
												4.50			3.82	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	2.13	0.02	2.07	1.72	1.24
3 Month LIBOR	2.33	0.01	2.34	2.06	1.32
6 Month LIBOR	2.54	--	2.52	2.25	1.45
1 Year LIBOR	2.85	--	2.82	2.52	1.71
6 Month CD	2.50	0.02	2.51	2.25	1.46
1 Year CMT	2.53	0.07	2.45	2.05	1.21
REPO O/N	2.01	--	2.00	1.55	1.11
REPO 1Wk	1.98	--	1.98	1.51	1.19
CoF Federal	1.979	--	1.924	1.606	1.397
11th D. CoF (Jul)	1.018	--	0.934	0.777	0.707

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.33	2.44	2.39
6mo	2.45	2.56	2.58
1yr	2.76	2.73	2.82
2yr	2.89	3.06	3.10
3yr	2.96	3.14	3.17
4yr	3.00	3.19	3.22
5yr	3.05	3.25	3.25
7yr	3.26	3.50	3.39
10yr	3.41	3.68	3.55
5yr Am	2.99		3.22
10yr Am	3.28		3.48

Fed Fund Futures	
Maturity	Rate
Sep-18	1.947
Oct-18	2.160
Nov-18	2.160
Dec-18	2.235
Jan-19	2.350
Feb-19	2.360
Mar-19	2.410
Apr-19	2.510
May-19	2.535
Jun-19	2.575
Jul-19	2.630

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
09/10	Consumer Credit	Jul	\$14.400b	--	\$10.211b	--
09/11	NFIB Small Business Optimism	Aug	108.10	--	107.90	--
09/11	JOLTS Job Openings	Jul	6675	--	6662	--
09/11	Wholesale Trade Sales MoM	Jul	0.10%	--	-0.10%	--
09/11	Wholesale Inventories MoM	Jul F	0.70%	--	0.70%	--
09/12	MBA Mortgage Applications	9/7	--	--	-0.10%	--
09/12	PPI Final Demand MoM	Aug	0.20%	--	0.00%	--
09/12	PPI Ex Food and Energy MoM	Aug	0.20%	--	0.10%	--
09/12	PPI Ex Food, Energy, Trade MoM	Aug	0.20%	--	0.30%	--
09/12	PPI Final Demand YoY	Aug	3.20%	--	3.30%	--
09/12	PPI Ex Food and Energy YoY	Aug	2.70%	--	2.70%	--
09/12	PPI Ex Food, Energy, Trade YoY	Aug	--	--	2.80%	--
09/13	CPI MoM	Aug	0.30%	--	0.20%	--
09/13	CPI Ex Food and Energy MoM	Aug	0.20%	--	0.20%	--
09/13	CPI YoY	Aug	2.80%	--	2.90%	--
09/13	CPI Ex Food and Energy YoY	Aug	2.40%	--	2.40%	--
09/13	CPI Index NSA	Aug	252.39	--	252.01	--
09/13	CPI Core Index SA	Aug	258.48	--	257.93	--
09/13	Real Avg Weekly Earnings YoY	Aug	--	--	0.10%	--
09/13	Real Avg Hourly Earning YoY	Aug	--	--	-0.20%	-0.10%
09/13	Initial Jobless Claims	9/8	210k	--	203k	--
09/13	Continuing Claims	9/1	1710k	--	1707k	--
09/13	Bloomberg Consumer Comfort	9/9	--	--	58.00	--
09/13	Monthly Budget Statement	Aug	-\$183.0b	--	-\$76.9b	--
09/14	Retail Sales Ex Auto and Gas	Aug	0.50%	--	0.60%	--
09/14	Retail Sales Control Group	Aug	0.40%	--	0.50%	--
09/14	Import Price Index YoY	Aug	4.10%	--	4.80%	--
09/14	Export Price Index YoY	Aug	--	--	0.04	--
09/14	Capacity Utilization	Aug	78.30%	--	78.10%	--
09/14	Manufacturing (SIC) Production	Aug	0.40%	--	0.30%	--
09/14	Business Inventories	Jul	0.50%	--	0.10%	--
09/14	U. of Mich. Current Conditions	Sep P	--	--	110.30	--
09/14	U. of Mich. 1 Yr Inflation	Sep P	--	--	3.00%	--
09/17	Empire Manufacturing	Sep	23.10	--	25.60	--
09/18	NAHB Housing Market Index	Sep	68.00	--	67.00	--
09/18	Total Net TIC Flows	Jul	--	--	\$114.5b	--
09/18	Net Long-term TIC Flows	Jul	--	--	-\$36.5b	--
09/19	Current Account Balance	2Q	--	--	-\$124.1b	--
09/19	Housing Starts	Aug	1240k	--	1168k	--
09/19	Building Permits	Aug	1315k	--	<del>1314k</del>	1303k
09/20	Philadelphia Fed Business Outlook	Sep	17.50	--	11.90	--
09/20	Bloomberg Consumer Comfort	9/16	--	--	--	--
09/20	Leading Index	Aug	0.50%	--	0.60%	--
09/20	Existing Home Sales	Aug	5.36m	--	5.34m	--
09/20	Household Change in Net Worth	2Q	--	--	\$1028b	--
09/21	Markit US Manufacturing PMI	Sep P	--	--	54.70	--
09/21	Markit US Composite PMI	Sep P	--	--	54.70	--

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	13.7	15.3	16.1	21.3	33.3
FH/FN 15y	7.3	6.7	6.8	8.7	14.8	17.8
GN 15y	12.1	13.4	13.3	14.0	13.6	14.9
FH/FN 20y		6.8	8.6	9.6	10.2	12.4
FH/FN 30y	2.9	6.2	4.3	4.1	4.8	7.4
GN 30y	10.3	11.3	13.4	14.4	15.6	16.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.0	11.4	12.1	17.7	14.3	22.7
FH/FN 15y	7.6	7.8	7.4	9.0	13.2	22.5
GN 15y	10.6	10.1	12.5	14.4	13.9	13.4
FH/FN 20y	0.1	6.6	7.5	9.8	12.8	13.8
FH/FN 30y	4.9	5.6	6.1	6.6	8.9	12.1
GN 30y	9.8	7.8	9.0	11.2	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	111.11	0.04	110.83	106.42	109.39
Euro	1.16	(0.00)	1.14	1.23	1.20
Dollar Index	95.08	(0.06)	96.36	90.09	91.35
<b>Major Stock Indices</b>					
Dow Jones	25,962	(3)	25,313	25,336	21,798
S&P 500	2,879.1	(22.4)	2,833.3	2,786.6	2,461.4
NASDAQ	7,914.5	(195)	7,839.1	7,560.8	6,360.2
<b>Commodities</b>					
Gold	1,197.2	(4.4)	1,211.1	1,324.0	1,347.3
Crude Oil	68.37	(1.43)	67.63	62.04	47.48
Natural Gas	2.77	(0.14)	2.94	2.73	2.89
Wheat	488.0	-30.5	546.8	489.0	413.8
Corn	353.8	2.8	357.8	383.0	344.3

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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