

Baker Market Update: Week in Review

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As observers of weather events watch Hurricane Florence make landfall on the east coast today, observers of market events are keeping an eye on their bond radars to see if the Ten-Year is going to make landfall at 3%. It's close. But the bond market, like the weather, can be capricious, and similar to the downgrading of Flo's intensity, this week's downgrading of inflation can alter perceptions.

This week's cooler-than-expected inflation reports, however, have done little to alter the consensus perception that the FOMC's monetary policy model is still tracking two more rate hikes before the year is out. The latest 2.2% year-over-year reading for the core Consumer Price Index might have disappointed the experts and inflation hawks that were looking for 2.4%, but July's real decline of 0.1% in inflation-adjusted *Real* Average Hourly Earnings turned into a 0.2% rise in that measure for August. That boost in spending power may have contributed to the boost in the University of Michigan's Consumer Sentiment Index as today's preliminary report has that measure positively leaping from 96.2 to 100.8. Or, maybe it's because Big Blue is a 35-point favorite over SMU tomorrow. Either way the American consumer doesn't appear to have anything to feel blue about.

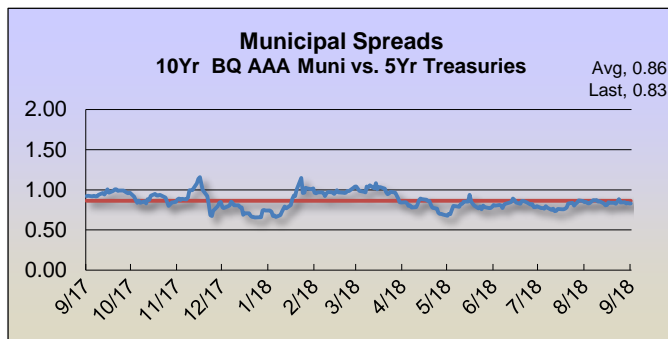
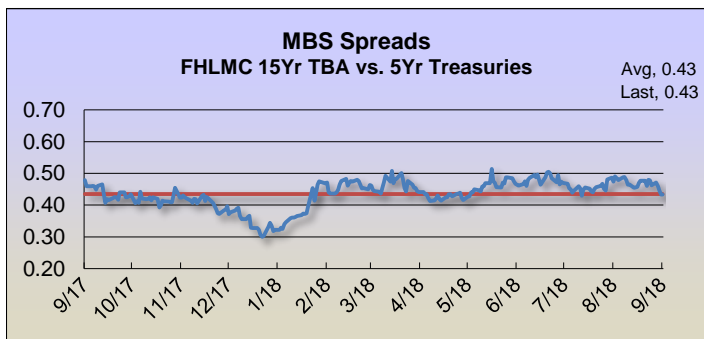
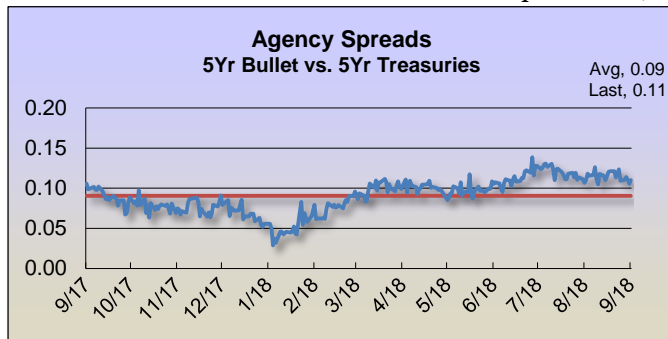
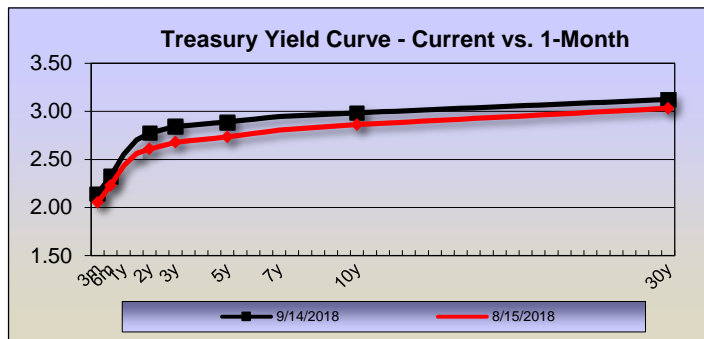
And as we all know, when American consumers are feeling good, they borrow more money. That's what we do. And that's what we did in July. The Federal Reserve reported on Monday that Consumer Credit rose by \$16.6B rather than the \$14B that was expected. But, the \$10B increase reported a month earlier was revised downward to about \$8.5B. A billion here, a billion there, no big deal for big business.

What about small business? Well, the National Federation of Independent Businesses disclosed on Tuesday that its Small Business Optimism Index bumped itself up to a reading of 108.8 from 107.9, and that's a little bump in the right direction. The number of employment openings got more than a little bump as the Bureau of Labor Statistics reported in its Job Openings and Labor Turnover Survey that the number of open positions rose, in August, to almost 7M from July's 6.8M. More job openings mean more opportunities for more people to make more money and buy more stuff.

According to the Census Bureau, they need to get on that because the amount of stuff Americans bought in July wasn't near the amount of stuff they were expected to buy. Market experts were expecting a 0.4% boost in Retail Sales last month, but that expectation was reduced to a near-negligible nudge of just 0.1%. But, the 0.5% gain in July was revised to a 0.7% gain, so maybe we just didn't need as much stuff as was thought.

These days, the thoughts of many turn to trade disputes and their influence, or non-influence, on the prices of things. Today, the BLS reported that its Import Price Index plummeted by 0.6% last month while the Export Price Index fell by just 0.1%. Does that mean we're winning the trade war? We should be since they're so easy to win, and all. So easy in fact, that headlines are filled of late with the President's intent to levy more tariffs on China, despite the efforts of other Administration officials to restart talks with Beijing.

Earlier in the week, Fed Governor Lael Brainard was talking to the Detroit Economic Club (Detroit has an economy?) and she said this: "Over the next year or two, barring unexpected developments, continued gradual increases in the federal funds rate are likely to be appropriate to sustain full employment and inflation near its objective." What were once vices are now habits, the Doobie Brothers told us, and those who were once doves are now hawks. This former dove-turned-hawk does not want the vice of *lower-for-longer* to become a habit. The whole hawk/dove aviary of the Federal Reserve will meet next week and we'll learn that it's not just hurricane season; it's also dove season. For now, the tropical depression known as a 3% Ten-Year is still out to sea. Don't forget to join us for coffee Monday morning, and we'll see. 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 ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
3mo	2.15	0.01	2.07	1.75	1.05	2yr	2.82	2.95	2.55	2.71	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.32	0.02	2.24	1.94	1.16	3yr	2.89	3.01	2.67	2.85	26.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.55	0.05	2.41	2.04	1.28	5yr	2.99	3.02	2.94	3.13	35.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.77	0.07	2.64	2.26	1.36	7yr	3.08	3.03	3.22	3.43	54.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.84	0.07	2.71	2.41	1.50	10yr	3.26	3.06	3.54	3.77	75.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.89	0.07	2.77	2.61	1.78	15yr	3.38	3.09	3.91	4.16	106.00	October TBA MBS				
7yr	2.95	0.05	2.84	2.75	2.01	20yr	3.50	3.10	4.23	4.50	98.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.98	0.04	2.90	2.82	2.19	25yr	3.61	3.08	4.31	4.59	100.00	2.00	3.39	5.0y		
30yr	3.12	0.02	3.07	3.06	2.77	30yr		3.07	4.40	4.68	102.00	2.50	3.19	5.2y		
												3.00	3.19	5.5y	3.54	9.8y
												3.50	3.31	5.2y	3.68	9.5y
												4.00			3.80	8.0y
												4.50			3.86	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	0.01	2.07	1.76	1.24
3 Month LIBOR	2.33	0.01	2.32	2.11	1.32
6 Month LIBOR	2.56	0.02	2.51	2.29	1.45
1 Year LIBOR	2.86	0.02	2.82	2.56	1.71
6 Month CD	2.54	0.02	2.50	2.30	1.43
1 Year CMT	2.55	0.05	2.42	2.03	1.27
REPO O/N	2.03	0.09	2.06	1.60	1.19
REPO 1Wk	1.98	--	1.98	1.54	1.20
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	2.34	2.45	2.40
6mo	2.47	2.58	2.60
1yr	2.81	2.79	2.86
2yr	2.95	3.12	3.16
3yr	3.02	3.21	3.24
4yr	3.07	3.26	3.29
5yr	3.12	3.32	3.32
7yr	3.32	3.55	3.45
10yr	3.46	3.72	3.60
5yr Am	3.05		3.29
10yr Am	3.33		3.54

Fed Fund Futures	
Maturity	Rate
Sep-18	1.953
Oct-18	2.165
Nov-18	2.170
Dec-18	2.245
Jan-19	2.370
Feb-19	2.385
Mar-19	2.440
Apr-19	2.545
May-19	2.580
Jun-19	2.625
Jul-19	2.695

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
09/10	Consumer Credit	Jul	\$14.000b	\$16.640b	\$10.211b	\$8.463b
09/11	NFIB Small Business Optimism	Aug	108.00	108.80	107.90	--
09/11	JOLTS Job Openings	Jul	6675.00	6939.00	6662.00	6822.00
09/11	Wholesale Inventories MoM	Jul F	0.70%	0.60%	0.70%	--
09/11	Wholesale Trade Sales MoM	Jul	0.10%	0.00%	-0.10%	-0.20%
09/12	MBA Mortgage Applications	9/7	--	-1.80%	-0.10%	--
09/12	PPI Final Demand YoY	Aug	3.20%	2.80%	3.30%	--
09/12	PPI Ex Food and Energy YoY	Aug	2.70%	2.30%	2.70%	--
09/12	PPI Ex Food, Energy, Trade YoY	Aug	--	2.90%	2.80%	--
09/13	CPI YoY	Aug	2.80%	2.70%	2.90%	--
09/13	CPI Ex Food and Energy YoY	Aug	2.40%	2.20%	2.40%	--
09/13	CPI Index NSA	Aug	252.40	252.15	252.01	--
09/13	CPI Core Index SA	Aug	258.41	258.14	257.93	--
09/13	Real Avg Weekly Earnings YoY	Aug	--	0.50%	0.10%	--
09/13	Real Avg Hourly Earning YoY	Aug	--	0.20%	-0.20%	-0.10%
09/13	Initial Jobless Claims	9/8	210k	204k	203k	205k
09/13	Continuing Claims	9/1	1710k	1696k	1707k	1711k
09/13	Bloomberg Consumer Comfort	9/9	--	59.00	58.00	--
09/13	Monthly Budget Statement	Aug	-\$211.0b	-\$214.1b	-\$107.7b	--
09/14	Retail Sales Ex Auto and Gas	Aug	0.50%	0.20%	0.60%	0.90%
09/14	Retail Sales Control Group	Aug	0.40%	0.10%	0.50%	0.80%
09/14	Import Price Index YoY	Aug	4.10%	3.70%	4.80%	4.90%
09/14	Export Price Index YoY	Aug	--	3.60%	4.30%	--
09/14	Capacity Utilization	Aug	78.20%	78.10%	78.10%	77.90%
09/14	Manufacturing (SIC) Production	Aug	0.30%	0.20%	0.30%	--
09/14	Business Inventories	Jul	0.60%	0.60%	0.10%	--
09/14	U. of Mich. Current Conditions	Sep P	--	116.10	110.30	--
09/14	U. of Mich. 1 Yr Inflation	Sep P	--	2.80%	3.00%	--
09/17	Empire Manufacturing	Sep	23.00	--	25.60	--
09/18	NAHB Housing Market Index	Sep	66.00	--	67.00	--
09/18	Total Net TIC Flows	Jul	--	--	\$114.5b	--
09/18	Net Long-term TIC Flows	Jul	--	--	-\$36.5b	--
09/19	MBA Mortgage Applications	9/14	--	--	-1.80%	--
09/19	Current Account Balance	2Q	-\$104.4b	--	-\$124.1b	--
09/19	Housing Starts	Aug	1231k	--	1168k	--
09/19	Building Permits	Aug	1300k	--	1314k	1303k
09/20	Philadelphia Fed Business Outlook	Sep	17.50	--	11.90	--
09/20	Initial Jobless Claims	9/15	210k	--	204k	--
09/20	Continuing Claims	9/8	1705k	--	1696k	--
09/20	Bloomberg Economic Expectations	Sep	--	--	57.00	--
09/20	Bloomberg Consumer Comfort	9/16	--	--	59.00	--
09/20	Leading Index	Aug	0.50%	--	0.60%	--
09/20	Existing Home Sales	Aug	5.38m	--	5.34m	--
09/20	Household Change in Net Worth	2Q	--	--	\$1028b	--
09/21	Markit US Manufacturing PMI	Sep P	55.00	--	54.70	--
09/21	Markit US Services PMI	Sep P	55.00	--	54.80	--
09/21	Markit US Composite PMI	Sep P	--	--	54.70	--

MBS Prepayments ⁴						
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	15.4	16.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.0	11.4	12.2	17.8	14.3	23.4
FH/FN 15y	7.6	7.8	7.4	9.0	13.2	22.7
GN 15y	10.6	10.0	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
Currencies					
Japanese Yen	112.07	1.08	111.15	106.32	110.24
Euro	1.17	0.01	1.13	1.24	1.19
Dollar Index	94.78	(0.59)	96.73	89.70	92.12
Major Stock Indices					
Dow Jones	26,164	248	25,300	24,758	22,203
S&P 500	2,904.0	32.3	2,840.0	2,749.5	2,495.6
NASDAQ	8,036.5	134	7,870.9	7,496.8	6,429.1
Commodities					
Gold	1,198.2	3.1	1,193.0	1,325.6	1,325.4
Crude Oil	68.30	0.55	67.04	60.96	49.89
Natural Gas	2.77	(0.01)	2.96	2.73	3.07
Wheat	471.8	-14.3	533.5	485.5	420.8
Corn	338.8	-15.5	362.3	383.5	341.8

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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