

Baker Market Update: Week in Preview

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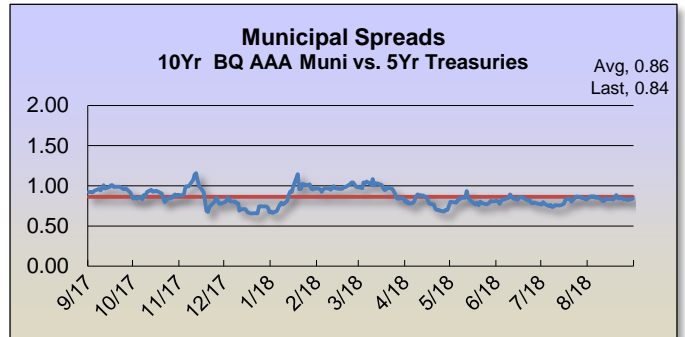
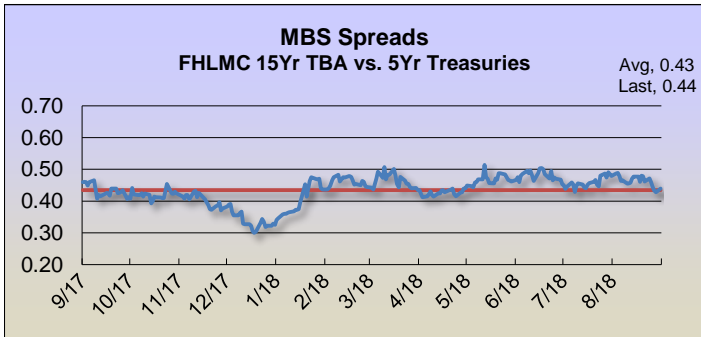
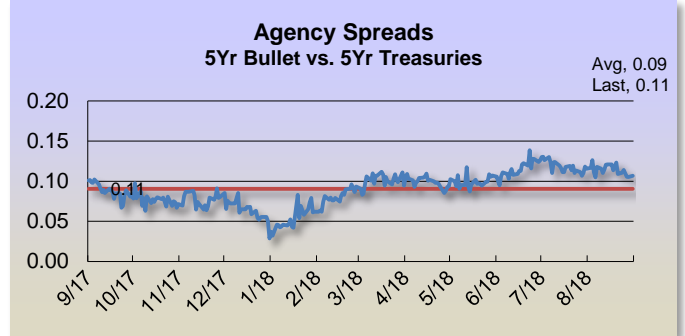
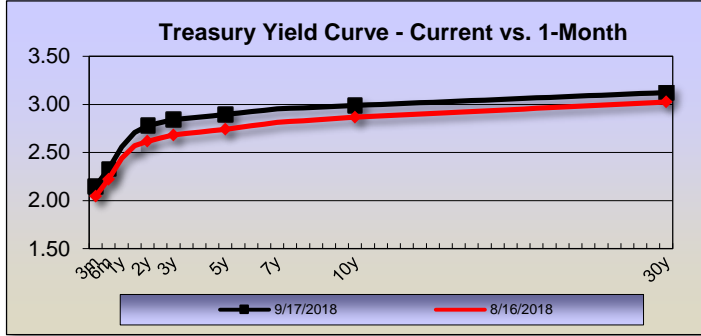
Investors can be forgiven for being unable to distinguish the differences between tariffs, the threats of tariffs, and the retaliatory threats that can be interchangeably applied to either. The uncertainty currently reigning over just what to be uncertain about has helped inject an additional dose of jitters into markets that some believe are already over-caffeinated. But, the Ten-Year Treasury stubbornly refuses to have its yield pushed over 2.99%. So far, anyway.

The only hard news this morning was the disappointing report from the New York Fed that its Empire Manufacturing Index for September, coming in at 19, was woefully short of the experts' expectation of 23, and August's level of almost 26. Readers may recall the last nationwide ISM Manufacturing report was a real stem-winder, and this reported weakness out of New York has many wondering if all the celebratory rhetoric proclaiming manufacturing's renaissance has been overblown. Besides, Apple watches don't have stems.

But, more reports on manufacturing vitality will be stemming from the Federal Reserve researchers in Philadelphia this week, with similar reports from Chicago and Dallas *next* week. Until then, potential market-moving news may originate with the Housing sector when reports for new Starts and new Building Permits come out on Wednesday. Market surveys anticipate slight gains in those measures along with a very modest increase in the Existing Home Sales report that is due out on Thursday. A similar, and similarly modest, increase is anticipated for the Conference Board's Index of Leading Economic Indicators. For more on housing, the National Association of Homebuilders Housing Market Index will be out tomorrow. It may show a bit of a dip in the unlikely event that early market estimates are correct.

Will any of this week's news have any effect on the Fed's rate decision next week? In a word, no. The expectation of the Central Bank's eighth rate hike of this cycle is, and has been, priced into prices pretty much since the Central Bank's seventh rate hike of this cycle. And for the time being, the prospect of a ninth rate hike in December seems more probable than not.

Whether or not this is the week that sees the Ten-Year break through 3% will again be driven by perceptions. The unclear resolution to Trade War tit-for-tat threats and threats of threats will have a greater influence on market behavior than any of this week's statistical releases. Unless of course, they don't. We'll check back with everyone on Friday. Have a great week, 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 | 0.02 | 2.04 | 1.77 | 1.03 | 2yr | 2.84 | 2.95 | 2.58 | 2.74 | 22.00 | 2Yr | 1.94 | 1.94 | 1.94 | - |
| 6mo | 2.33 | 0.02 | 2.22 | 1.94 | 1.17 | 3yr | 2.90 | 3.01 | 2.70 | 2.88 | 26.33 | 3Yr | 2.10 | 2.11 | 2.11 | 2.10 |
| 1yr | 2.56 | 0.04 | 2.43 | 2.05 | 1.29 | 5yr | 3.00 | 3.03 | 2.97 | 3.16 | 35.00 | 5Yr | 2.19 | 2.22 | 2.24 | 2.24 |
| 2yr | 2.78 | 0.06 | 2.61 | 2.29 | 1.38 | 7yr | 3.09 | 3.03 | 3.25 | 3.46 | 54.00 | 7Yr | 2.42 | 2.47 | 2.52 | 2.53 |
| 3yr | 2.84 | 0.06 | 2.68 | 2.44 | 1.52 | 10yr | 3.27 | 3.06 | 3.57 | 3.80 | 75.00 | 10Yr | 2.57 | 2.62 | 2.69 | 2.72 |
| 5yr | 2.89 | 0.07 | 2.74 | 2.64 | 1.81 | 15yr | 3.40 | 3.10 | 3.93 | 4.19 | 106.00 | October TBA MBS | | | | |
| 7yr | 2.95 | 0.07 | 2.81 | 2.78 | 2.03 | 20yr | 3.53 | 3.10 | 4.26 | 4.53 | 98.00 | Cpn | 15Yr -Yld/AL | | 30Yr -Yld/AL | |
| 10yr | 2.99 | 0.06 | 2.86 | 2.85 | 2.20 | 25yr | 3.67 | 3.09 | 4.34 | 4.62 | 100.00 | 2.00 | 3.41 | 5.0y | | |
| 30yr | 3.12 | 0.04 | 3.02 | 3.08 | 2.77 | 30yr | | 3.08 | 4.42 | 4.71 | 102.00 | 2.50 | 3.23 | 5.2y | | |
| | | | | | | | | | | | | 3.00 | 3.23 | 5.6y | 3.55 | 9.9y |
| | | | | | | | | | | | | 3.50 | 3.35 | 5.2y | 3.69 | 9.7y |
| | | | | | | | | | | | | 4.00 | | | 3.83 | 8.3y |
| | | | | | | | | | | | | 4.50 | | | 3.89 | 6.6y |

* 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 | 1.95 | | | | |
| 1 Month LIBOR | 2.16 | 0.03 | 2.06 | 1.79 | 1.23 |
| 3 Month LIBOR | 2.34 | -- | 2.32 | 2.15 | 1.32 |
| 6 Month LIBOR | 2.57 | 0.03 | 2.51 | 2.32 | 1.46 |
| 1 Year LIBOR | 2.88 | 0.03 | 2.81 | 2.59 | 1.72 |
| 6 Month CD | 2.54 | 0.04 | 2.51 | 2.34 | 1.43 |
| 1 Year CMT | 2.56 | 0.03 | 2.44 | 2.05 | 1.28 |
| REPO O/N | 2.07 | 0.05 | 1.99 | 1.48 | 1.12 |
| REPO 1Wk | 1.98 | -- | 1.98 | 1.69 | 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 | 2.35 | 2.46 | 2.40 |
| 6mo | 2.48 | 2.59 | 2.60 |
| 1yr | 2.83 | 2.80 | 2.86 |
| 2yr | 2.96 | 3.13 | 3.16 |
| 3yr | 3.03 | 3.22 | 3.24 |
| 4yr | 3.07 | 3.27 | 3.29 |
| 5yr | 3.13 | 3.33 | 3.32 |
| 7yr | 3.32 | 3.56 | 3.45 |
| 10yr | 3.47 | 3.74 | 3.60 |
| 5yr Am | 3.06 | | 3.29 |
| 10yr Am | 3.35 | | 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 | 2.365 |
| Feb-19 | 2.380 |
| 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 |
| 09/17 | Empire Manufacturing | Sep | 23.00 | 19.00 | 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 | -\$103.3b | -- | -\$124.1b | -- |
| 09/19 | Housing Starts | Aug | 1235k | -- | 1168k | -- |
| 09/19 | Building Permits | Aug | 1310k | -- | 1314k | 1303k |
| 09/20 | Philadelphia Fed Business Outlook | Sep | 15.80 | -- | 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 | -- |
| 09/24 | Chicago Fed Nat Activity Index | Aug | -- | -- | 13.00% | -- |
| 09/25 | FHFA House Price Index MoM | Jul | 0.20% | -- | 0.20% | -- |
| 09/25 | S&P CoreLogic CS 20-City YoY NSA | Jul | -- | -- | 6.31% | -- |
| 09/25 | S&P CoreLogic CS US HPI YoY NSA | Jul | -- | -- | 6.24% | -- |
| 09/25 | Conf. Board Present Situation | Sep | -- | -- | 172.20 | -- |
| 09/25 | Conf. Board Expectations | Sep | -- | -- | 107.60 | -- |
| 09/26 | MBA Mortgage Applications | 9/21 | -- | -- | -- | -- |
| 09/26 | New Home Sales | Aug | 625k | -- | 627k | -- |
| 09/26 | FOMC Rate Decision (Upper Bound) | 9/26 | 2.25% | -- | 2.00% | -- |
| 09/26 | FOMC Rate Decision (Lower Bound) | 9/26 | 2.00% | -- | 1.75% | -- |
| 09/26 | Interest Rate on Excess Reserves | 9/27 | -- | -- | 1.95% | -- |
| 09/27 | Advance Goods Trade Balance | Aug | -\$70.5b | -- | -\$72.2b | -\$72.0b |
| 09/27 | GDP Annualized QoQ | 2Q T | 4.30% | -- | 4.20% | -- |
| 09/27 | Personal Consumption | 2Q T | -- | -- | 3.80% | -- |
| 09/27 | GDP Price Index | 2Q T | 3.00% | -- | 3.00% | -- |
| 09/27 | Durable Goods Orders | Aug P | 1.50% | -- | -1.70% | -- |
| 09/27 | Core PCE QoQ | 2Q T | -- | -- | 2.00% | -- |
| 09/27 | Durables Ex Transportation | Aug P | 0.30% | -- | 0.10% | -- |
| 09/27 | Cap Goods Ship Nondef Ex Air | Aug P | -- | -- | 1.00% | -- |
| 09/27 | Initial Jobless Claims | 9/22 | -- | -- | -- | -- |
| 09/27 | Continuing Claims | 9/15 | -- | -- | -- | -- |
| 09/27 | Pending Home Sales NSA YoY | Aug | -- | -- | -0.50% | -- |
| 09/28 | PCE Core YoY | Aug | -- | -- | 2.00% | -- |
| 09/28 | Personal Income | Aug | 0.40% | -- | 0.30% | -- |
| 09/28 | Real Personal Spending | Aug | -- | -- | 0.20% | -- |
| 09/28 | PCE Deflator YoY | Aug | -- | -- | 2.30% | -- |
| 09/28 | U. of Mich. Current Conditions | Sep F | -- | -- | 116.10 | -- |
| 09/28 | U. of Mich. 1 Yr Inflation | Sep F | -- | -- | 2.80% | -- |

| 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 | 23.3 |
| FH/FN 15y | 7.6 | 7.8 | 7.3 | 9.0 | 13.2 | 22.7 |
| GN 15y | 10.6 | 10.0 | 12.3 | 14.3 | 13.8 | 13.4 |
| FH/FN 20y | 0.1 | 6.6 | 7.5 | 9.8 | 12.8 | 13.8 |
| FH/FN 30y | 4.9 | 5.6 | 6.0 | 6.4 | 8.7 | 12.0 |
| GN 30y | 9.8 | 7.8 | 8.8 | 10.6 | 16.0 | 19.3 |

| Other Markets | | | | | |
|----------------------------|---------|----------|------------|---------|---------|
| Index | Current | 1Wk Chng | Historical | | |
| | | | 1 Mo | 6 Mo | 1 Yr |
| Currencies | | | | | |
| Japanese Yen | 111.94 | 0.81 | 110.50 | 106.10 | 111.57 |
| Euro | 1.17 | 0.01 | 1.14 | 1.23 | 1.20 |
| Dollar Index | 94.49 | (0.66) | 96.10 | 90.23 | 91.87 |
| Major Stock Indices | | | | | |
| Dow Jones | 26,145 | 288 | 25,669 | 24,947 | 22,268 |
| S&P 500 | 2,899.2 | 22.1 | 2,850.1 | 2,752.0 | 2,500.2 |
| NASDAQ | 7,940.8 | 17 | 7,816.3 | 7,482.0 | 6,448.5 |
| Commodities | | | | | |
| Gold | 1,202.0 | 7.5 | 1,176.5 | 1,312.3 | 1,321.3 |
| Crude Oil | 69.58 | 2.04 | 65.91 | 62.34 | 49.89 |
| Natural Gas | 2.81 | 0.01 | 2.95 | 2.69 | 3.02 |
| Wheat | 507.8 | 3.8 | 560.5 | 467.8 | 449.0 |
| Corn | 348.8 | -6.8 | 364.3 | 382.8 | 354.8 |

| 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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