

Baker Market Update: Week in Review

Lester Murray

Associate Partner

Financial Strategies Group

lester@gobaker.com

800.937.2257

The Baker Group

GoBaker.com

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



Many of those with an opinion about such things seem to be of the opinion that China's muted retaliation to Mr. Trump's tariffs is proof that Chinese President Xi was the first to "blink" in the Sino-American trade skirmish. There *are* those, however, that see things a little differently. They think the "blink" was really a "wink." As in the "I know something you don't" kind of wink. Many have concluded, perhaps prematurely, that America's chief executive has all the leverage when it comes to dictating international trading terms, but, China's leadership doesn't have to worry about the outcome of mid-term elections or Supreme Court nominations or Robert Mueller. And besides, the Chinese finished *their* wall about 400 years ago, while Mr. Trump is still trying to get his started. And, therein lies the *real* rub and the true motivation behind the President's trade policy. Wall envy.

The American stock market, seemingly unconcerned by tariffs or Presidential foibles, is the envy of investors everywhere as the Dow and the S&P closed yesterday at record highs. The Ten-Year Treasury yield, while not reaching a record high, *has* been pushed up above 3%. Apart from a momentary visit to that level in May of this year, the Benchmark issue hasn't yielded this much since late in 2013. The Browns went 4-12 that year.

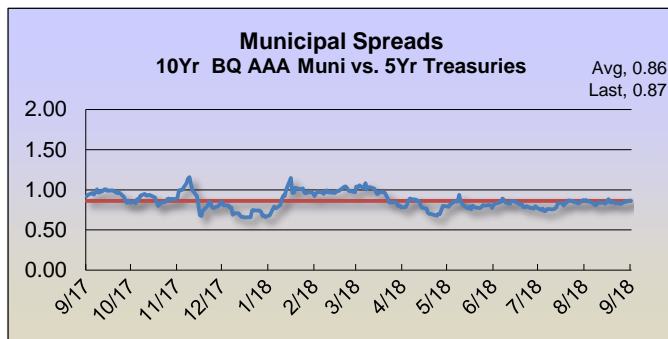
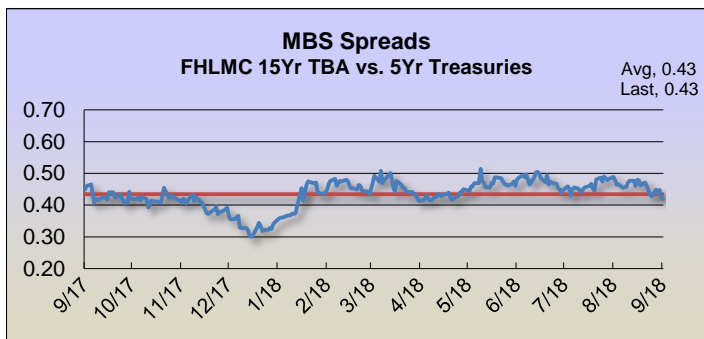
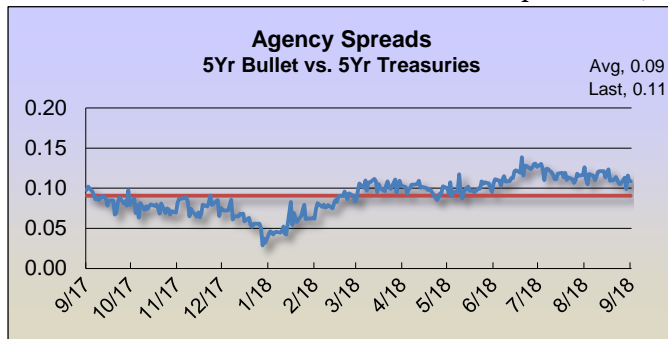
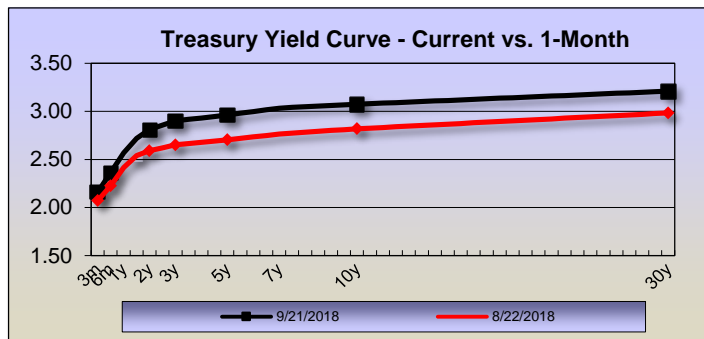
Even though the Ten-Year garners most of the attention when the discussion turns to bond yields, it's the behavior of the Two-Year that is more startling. At around 2.80% this morning, that level hasn't been seen since the summer of '08; by the winter of '08 its yield was 67 basis points. When the FOMC meets next week, the discussion will very likely turn to bond yields after it turns away from what will be the eighth hike in Fed Funds since December '15. When their meeting wraps up next Wednesday, Chairman Powell will hold a press conference in which he will speak about how the Committee's goals for monetary policy are being reached and how the upside/downside risks are roughly balanced. Jerome may very well be wearing his "hawk" hat when he steps up to the podium, even as he describes the uncertain outcome of an uncertain trade policy. When former dove Lael Brainard was at a different podium the other day, she spoke of how the mythical "neutral" rate for Fed Funds may need to be higher in the short-term than it might be over a longer horizon. And what should that neutral rate be? Well, how long is a piece of string?

And how long will the data that's driving the data-driven Fed continue to push it to more rate hikes? That, too, is a tricky question to answer. This week's data began with a less-than-frothy report from the New York Fed that revealed its Empire Manufacturing Index unexpectedly slipped to 19 from 25.6. Experts who were looking for 23 were disappointed. No such disappointment accompanied the Philadelphia Fed's reports that its Business Conditions Index soared to almost 23 from 12 with the expectation only being 18. That's all fine and dandy, but as recently as May, that index value was over 34. The index value of Leading Economic Indicators slipped a little bit, too, as July's rise of 0.7% declined to August's 0.4% move. Existing Home Sales were slightly disappointing as well with the 5.34M actual coming in just under the 5.37M that were expected. That makes five consecutive months of decline.

The 9.2% jump in Housing Starts, though, far exceeded the 5.7% increase that was anticipated, but, New Building Permits declined by a substantial and surprising 5.7%. The National Association of Homebuilders (NAHB) reported that its Housing Market Index strengthened to 67 from 66.

Not strengthening is the grip that British Prime Minister Theresa May has on her job. The United Kingdom, at daggers drawn with the European Union, can't seem to get the E.U.'s gum unstuck from its Saville Row shoe. The latest exit plan proposed by Mrs. May's government was rejected, yesterday, by European Union leaders. Back to the "drawing" board.

For those who can't avert their gaze from the Big Board, that's okay. Just keep in mind that the stock market is *not* the same thing as the economy. Mr. Xi knows this, but does Mr. Trump? Let's hope we don't have to find out the hard way. Don't forget to join us Monday morning for coffee; 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	2.16	0.01	2.07	1.75	1.03	2yr	2.87	2.99	2.70	2.88	22.00	2Yr	1.94	1.94	1.94	-	
6mo	2.36	0.03	2.23	1.94	1.19	3yr	2.95	3.05	2.80	2.98	27.33	3Yr	2.10	2.11	2.11	2.10	
1yr	2.57	0.01	2.43	2.04	1.30	5yr	3.05	3.08	3.04	3.23	38.00	5Yr	2.19	2.22	2.24	2.24	
2yr	2.81	0.03	2.60	2.31	1.44	7yr	3.15	3.10	3.30	3.52	56.00	7Yr	2.42	2.47	2.52	2.53	
3yr	2.90	0.05	2.66	2.46	1.59	10yr	3.33	3.13	3.63	3.86	75.00	10Yr	2.57	2.62	2.69	2.72	
5yr	2.96	0.06	2.71	2.67	1.89	15yr	3.46	3.17	4.00	4.26	106.00	October TBA MBS					
7yr	3.03	0.07	2.78	2.81	2.12	20yr	3.60	3.17	4.35	4.63	95.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL		
10yr	3.07	0.08	2.83	2.88	2.28	25yr	3.74	3.16	4.44	4.72	97.00		2.00	3.48	5.0y		
30yr	3.21	0.08	2.99	3.12	2.81	30yr		3.14	4.52	4.81	99.00		2.50	3.26	5.2y		
													3.00	3.25	5.6y	3.59	9.9y
													3.50	3.37	5.2y	3.73	9.7y
												4.00			3.86	8.3y	
												4.50			3.91	6.6y	

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.00	--	2.00	1.75	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	1.92				
1 Month LIBOR	2.21	0.05	2.07	1.85	1.24
3 Month LIBOR	2.37	0.03	2.31	2.25	1.32
6 Month LIBOR	2.58	0.02	2.51	2.41	1.48
1 Year LIBOR	2.90	0.02	2.81	2.65	1.75
6 Month CD	2.57	0.03	2.51	2.40	1.43
1 Year CMT	2.58	0.03	2.43	2.08	1.32
REPO O/N	1.90	--	2.01	1.05	1.04
REPO 1Wk	2.19	0.21	1.98	1.75	1.19
CoF Federal	2.024	--	1.979	1.664	1.429
11th D. CoF (Jul)	1.018	--	0.934	0.777	0.707

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.37	2.48	2.44
6mo	2.52	2.62	2.64
1yr	2.84	2.80	2.89
2yr	3.00	3.16	3.21
3yr	3.08	3.26	3.30
4yr	3.12	3.32	3.35
5yr	3.19	3.39	3.40
7yr	3.39	3.63	3.54
10yr	3.55	3.80	3.69
5yr Am	3.11		3.35
10yr Am	3.41		3.62

Fed Fund Futures	
Maturity	Rate
Sep-18	1.953
Oct-18	2.175
Nov-18	2.175
Dec-18	2.255
Jan-19	2.380
Feb-19	2.390
Mar-19	2.445
Apr-19	2.550
May-19	2.580
Jun-19	2.625
Jul-19	2.700

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	67.00	--
09/18	Total Net TIC Flows	Jul	\$46.0b	\$52.2b	\$114.5b	\$189.7b
09/18	Net Long-term TIC Flows	Jul	--	\$74.8b	-\$36.5b	--
09/19	MBA Mortgage Applications	9/14	--	1.60%	-1.80%	--
09/19	Current Account Balance	2Q	-\$103.4b	-\$101.5b	-\$124.1b	-\$121.7b
09/19	Housing Starts	Aug	1240k	1282k	1168k	1174k
09/19	Building Permits	Aug	1310k	1229k	1311k	1303k
09/20	Philadelphia Fed Business Outlook	Sep	18.00	22.90	11.90	--
09/20	Initial Jobless Claims	9/15	210k	201k	204k	--
09/20	Continuing Claims	9/8	1705k	1645k	1696k	--
09/20	Bloomberg Economic Expectations	Sep	--	57.50	57.00	--
09/20	Bloomberg Consumer Comfort	9/16	--	60.20	59.00	--
09/20	Leading Index	Aug	0.50%	0.40%	0.60%	0.70%
09/20	Existing Home Sales	Aug	5.37m	5.34m	5.34m	--
09/20	Household Change in Net Worth	2Q	--	\$2191b	\$1028b	\$1303b
09/21	Markit US Manufacturing PMI	Sep P	55.00	55.60	54.70	--
09/21	Markit US Composite PMI	Sep P	--	53.40	54.70	--
09/25	S&P CoreLogic CS 20-City YoY NSA	Jul	6.20%	--	6.31%	--
09/25	S&P CoreLogic CS US HPI YoY NSA	Jul	--	--	6.24%	--
09/25	Conf. Board Consumer Confidence	Sep	132.00	--	133.40	--
09/25	Conf. Board Present Situation	Sep	--	--	172.20	--
09/25	Conf. Board Expectations	Sep	--	--	107.60	--
09/26	New Home Sales	Aug	630k	--	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	-\$70.7b	--	-\$72.2b	-\$72.0b
09/27	Wholesale Inventories MoM	Aug P	0.30%	--	0.60%	--
09/27	GDP Annualized QoQ	2Q T	4.20%	--	4.20%	--
09/27	Retail Inventories MoM	Aug	--	--	0.40%	0.50%
09/27	Personal Consumption	2Q T	3.80%	--	3.80%	--
09/27	GDP Price Index	2Q T	3.00%	--	3.00%	--
09/27	Core PCE QoQ	2Q T	2.00%	--	2.00%	--
09/27	Durables Ex Transportation	Aug P	0.40%	--	0.10%	--
09/27	Cap Goods Ship Nondef Ex Air	Aug P	0.50%	--	1.00%	--
09/27	Initial Jobless Claims	9/22	210k	--	201k	--
09/27	Continuing Claims	9/15	1690k	--	1645k	--
09/27	Bloomberg Consumer Comfort	9/23	--	--	60.20	--
09/27	Pending Home Sales NSA YoY	Aug	--	--	-0.50%	--
09/28	PCE Core YoY	Aug	2.00%	--	2.00%	--
09/28	Personal Income	Aug	0.40%	--	0.30%	--
09/28	Real Personal Spending	Aug	0.20%	--	0.20%	--
09/28	PCE Deflator YoY	Aug	2.20%	--	2.30%	--
09/28	Chicago Purchasing Manager	Sep	62.00	--	63.60	--
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	11.3	12.1	17.7	14.3	23.3
FH/FN 15y	7.6	7.8	7.1	8.9	13.1	22.7
GN 15y	10.6	10.0	12.3	14.3	13.8	13.4
FH/FN 20y	0.1	6.5	7.4	9.0	11.4	13.4
FH/FN 30y	4.8	5.6	5.9	6.3	8.5	11.9
GN 30y	9.8	7.7	8.8	10.6	16.0	19.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	112.55	0.49	110.31	106.05	112.48
Euro	1.18	0.01	1.16	1.23	1.19
Dollar Index	94.14	(0.78)	95.26	89.78	92.26
Major Stock Indices					
Dow Jones	26,717	562	25,822	24,682	22,359
S&P 500	2,933.8	28.8	2,863.0	2,711.9	2,500.6
NASDAQ	8,013.7	4	7,859.2	7,345.3	6,422.7
Commodities					
Gold	1,200.1	3.9	1,192.6	1,321.5	1,290.6
Crude Oil	71.11	2.12	67.35	65.17	50.55
Natural Gas	2.97	0.20	2.98	2.64	2.95
Wheat	516.3	36.3	527.3	453.5	452.5
Corn	354.3	17.3	359.8	375.0	350.3

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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