

## Baker Market Update: Week in Preview

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“The trade war is now a reality,” according to a new report from Fitch Ratings economist Brian Coulton. Apparently, the Chinese have taken umbrage to America’s negotiating style. Over the weekend, the state-run Chinese news agency reported that, “negotiations cannot be carried out under the threat of tariffs.” One wonders what kind of threats they would prefer. At any rate, this comes as news to America’s Negotiator-in-Chief, and in the meantime, a near-term resolution seems to be non-negotiable. “The door for trade talks is always open,” the report went on to say, “but negotiations must be held in an environment of mutual respect.” The Chinese, it would seem, have no idea with whom they’re dealing.

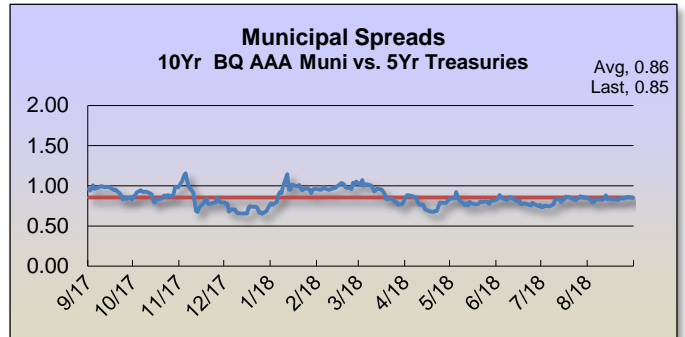
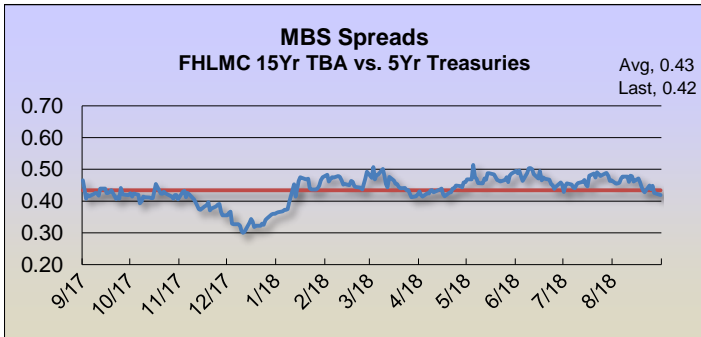
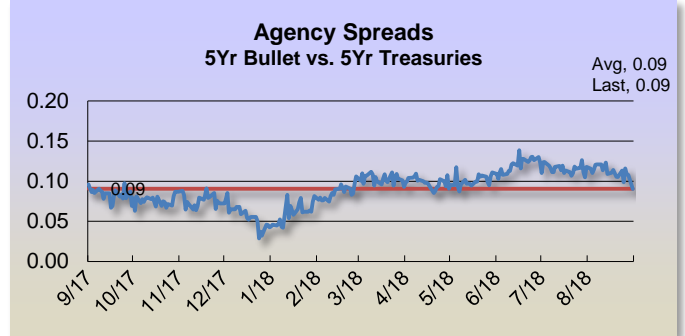
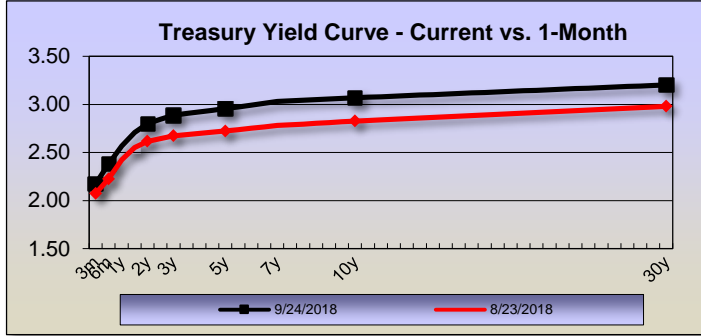
News of China’s withdrawal from planned trade talks has dealt a minor blow, of sorts, to global equity markets, but any flight-to-quality benefits to the Treasury market have failed to materialize. So, stocks are off and bonds are off, too, with the Ten-Year yield sneaking up on 3.10%.

There will be no sneaking for the FOMC this week when they meet to raise rates and then tell us all about it at the Chairman’s press conference on Wednesday. This will be the eighth, quarter-point bump in the Funds rate since we first started down the road to normalization in December of 2015. Perhaps the most significant characteristic of *this* particular bump is that it will result in a positive “real” Fed Funds rate for the first time since 2008. That’s almost ten years. The Fed has never ended a tightening cycle when the inflation-adjusted overnight rate has not been positive; it will become that on Wednesday. We’ll also be getting a new “dot plot” and fresh values for the Committee’s Projections of Central Tendencies. Despite the voting unanimity of Mr. Powell’s committee, a disparity of opinion exists on what the nature of monetary policy ought to be. The members’ expected projections for economic performance and the related effect on interest rates will be closely scrutinized as everyone from Jerome Powell to Lee Corso tries to divine the neutral rate for Fed Funds.

With the well-advertised rate hike coming on Wednesday, markets will have until Friday to know whether it remains in positive, inflation-adjusted territory. On that day, the Bureau of Economic Analysis will publish its fresh report for the Personal Consumption Expenditures Index (PCE), the Fed’s favored inflation measure. Experts, according to early surveys, expect the year-over-year “core” rate to remain unchanged at 2%, with the all-inclusive, year-over-year PCE Price Deflator actually falling by one-tenth to 2.2%. Also on Friday, we’ll be getting new reports for August’s Personal Income (up 0.4% expected), and Personal Spending (up 0.2% expected). Inflation adjusted Personal Spending is likewise anticipated to rise by 0.2%. The week will close out with a final, September report for the University of Michigan’s Index of Consumer Sentiment. Readers may recall that the preliminary report from a couple of weeks ago was unexpectedly positive.

Before that, though, a slew of Housing numbers will be published via the Case-Shiller CoreLogic report and the Conference Board will scoop the Wolverines with its latest Consumer Confidence report tomorrow. Thursday brings what may or may not be the final Q2 GDP report and the already reported 4.2% growth rate is not expected to change. As an aside, the Atlanta Fed’s GDPNow forecasting model, last updated on September 19, is looking at 4.4% for Q3. Well, it can look all it wants, but it’s not going to find it once all the counting gets done. In the meantime, we can count on new, preliminary reports for Durable Goods orders and related capital expenditures.

We can also count on the new soap-opera, “All My Tariffs” to zoom to the top of the ratings. Have a great week everyone, 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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	2.18	0.02	2.09	1.72	1.02	2yr	2.87	2.99	2.70	2.88	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.38	0.05	2.24	1.90	1.18	3yr	2.95	3.06	2.80	2.98	28.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.57	0.01	2.43	2.02	1.30	5yr	3.06	3.09	3.04	3.23	42.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.80	0.02	2.62	2.26	1.43	7yr	3.15	3.10	3.30	3.52	58.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.89	0.04	2.67	2.40	1.58	10yr	3.34	3.13	3.63	3.86	75.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.96	0.07	2.71	2.60	1.86	15yr	3.46	3.17	4.00	4.26	106.00	October TBA MBS				
7yr	3.03	0.08	2.77	2.74	2.09	20yr	3.58	3.17	4.35	4.63	95.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.07	0.08	2.81	2.81	2.25	25yr	3.70	3.16	4.44	4.72	97.00	2.00	3.50	5.0y		
30yr	3.20	0.07	2.96	3.06	2.78	30yr		3.14	4.52	4.81	99.00	2.50	3.27	5.2y		
												3.00	3.26	5.6y	3.60	9.9y
												3.50	3.38	5.2y	3.73	9.7y
												4.00			3.87	8.3y
												4.50			3.93	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	4.75	4.25
Sec. O.N. Finance	1.92				
1 Month LIBOR	2.22	0.05	2.07	1.86	1.24
3 Month LIBOR	2.37	0.04	2.31	2.27	1.33
6 Month LIBOR	2.59	0.02	2.51	2.43	1.49
1 Year LIBOR	2.91	0.03	2.81	2.68	1.77
6 Month CD	2.57	0.03	2.48	2.43	1.43
1 Year CMT	2.58	0.02	2.45	2.06	1.31
REPO O/N	2.02	--	2.03	1.72	1.06
REPO 1Wk	2.18	0.20	1.98	1.88	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	2.38	2.49	2.44
6mo	2.52	2.63	2.64
1yr	2.85	2.83	2.89
2yr	3.00	3.17	3.21
3yr	3.08	3.27	3.30
4yr	3.13	3.32	3.35
5yr	3.19	3.40	3.40
7yr	3.40	3.64	3.54
10yr	3.55	3.82	3.69
5yr Am	3.13		3.35
10yr Am	3.42		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	2.375
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
09/24	Chicago Fed Nat Activity Index	Aug	20.00%	18.00%	<del>13.00%</del>	18.00%
09/25	FHFA House Price Index MoM	Jul	0.30%	--	0.20%	--
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	--
09/26	MBA Mortgage Applications	9/21	--	--	1.60%	--
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	-\$70.5b	--	<del>-\$72.2b</del>	-\$72.0b
09/27	GDP Annualized QoQ	2Q T	4.20%	--	4.20%	--
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	1675k	--	1645k	--
09/27	Pending Home Sales NSA YoY	Aug	-1.00%	--	-0.50%	--
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	PCE Core YoY	Aug	2.00%	--	2.00%	--
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%	--
10/01	Markit US Manufacturing PMI	Sep F	--	--	55.60	--
10/01	ISM Manufacturing	Sep	60.40	--	61.30	--
10/01	ISM Employment	Sep	--	--	58.50	--
10/01	ISM Prices Paid	Sep	73.00	--	72.10	--
10/01	ISM New Orders	Sep	--	--	65.10	--
10/03	ADP Employment Change	Sep	184k	--	163k	--
10/03	Markit US Composite PMI	Sep F	--	--	53.40	--
10/04	Challenger Job Cuts YoY	Sep	--	--	13.70%	--
10/04	Initial Jobless Claims	9/29	--	--	--	--
10/04	Continuing Claims	9/22	--	--	--	--
10/05	Change in Nonfarm Payrolls	Sep	188k	--	201k	--
10/05	Two-Month Payroll Net Revision	Sep	--	--	-50k	--
10/05	Change in Private Payrolls	Sep	185k	--	204k	--
10/05	Change in Manufact. Payrolls	Sep	15k	--	-3k	--
10/05	Unemployment Rate	Sep	3.80%	--	3.90%	--
10/05	Underemployment Rate	Sep	--	--	7.40%	--
10/05	Average Hourly Earnings YoY	Sep	--	--	2.90%	--
10/05	Average Weekly Hours All Employees	Sep	34.50	--	34.50	--
10/05	Labor Force Participation Rate	Sep	--	--	62.70%	--

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	15.4	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	12.8	14.7	14.4	14.0
FH/FN 20y	0.1	6.6	7.4	9.0	11.5	13.6
FH/FN 30y	4.8	5.6	6.0	6.3	8.4	11.9
GN 30y	9.8	7.7	8.7	10.4	16.0	19.1

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	112.60	0.75	111.24	105.41	111.73
Euro	1.18	0.01	1.16	1.24	1.18
Dollar Index	93.94	(0.56)	95.15	89.44	92.17
<b>Major Stock Indices</b>					
Dow Jones	26,631	569	25,790	23,533	22,350
S&P 500	2,921.2	32.4	2,874.7	2,588.3	2,502.2
NASDAQ	7,968.1	72	7,946.0	6,992.7	6,426.9
<b>Commodities</b>					
Gold	1,202.8	1.6	1,206.3	1,349.9	1,293.3
Crude Oil	72.25	3.34	68.72	65.88	50.66
Natural Gas	3.02	0.21	2.92	2.59	2.96
Wheat	530.3	24.0	514.8	460.3	449.5
Corn	359.8	11.8	348.5	377.3	353.5

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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