

Baker Market Update: Week in Review

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President Trump took the week off from castigating the Chinese over trade policy, and instead, switched to upbraiding them for meddling in America's upcoming mid-term elections. He even intimated that Chinese President Xi may not be his friend anymore. Happily, the members of the FOMC are still buddies. The Friendly Open Market Committee got together this week and, to the surprise of no one, gleefully consummated its eighth rate-hike on this merry road to monetary normalcy.

So, just how normal are we? A dicey question to be sure, but for the first time since 2008, the inflation-adjusted *real* Fed Funds rate is not negative. We know that because the Bureau of Economic Analysis (BEA) cordially announced this morning that the "core" rate of the Personal Consumption Expenditures Price Index remained unchanged at 2% year-over-year, making the new 2%-2.25% Funds rate either equal to, or slightly higher than, the inflation rate. And although no one will own up to it, that's why the Committee's post-meeting statement no longer contains a description of monetary policy as being "accommodative."

One might wonder, and many do, why monetary policy has lost "that lovin' feelin'" when the Fed's own median projections project slower growth ahead. Is that normal? Well, despite the slight alteration to the Fed's statement, the rate for Fed Funds is still very much accommodative. New York Fed President John Williams knows this better than anyone. He is the "Williams" part of the renowned Laubach-Williams Model. As everyone knows, that model uses some fancy math to figure out what the neutral *real* rate should be and these days the model says +87 basis points. We're still a long ways away from that. We all wish Mr. Powell well as he attempts to pull off what amounts to an economic unicorn; the mythical "soft landing."

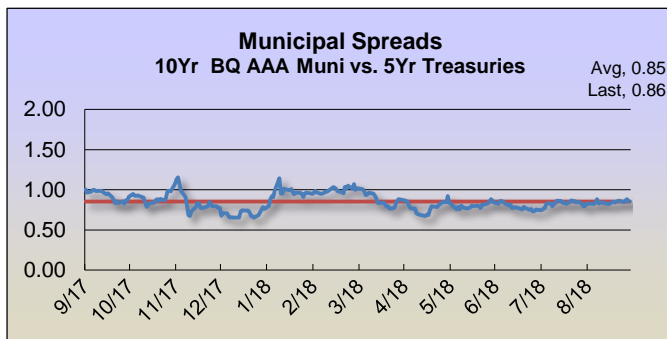
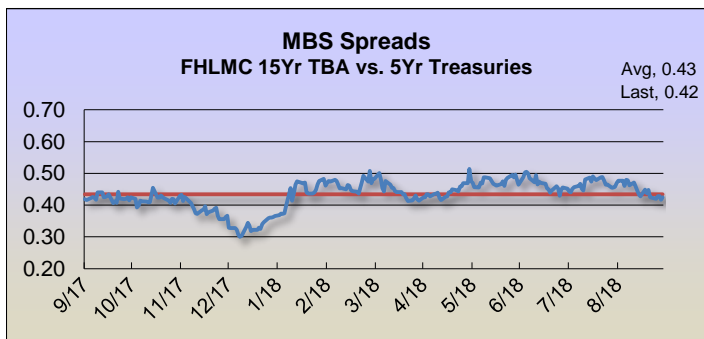
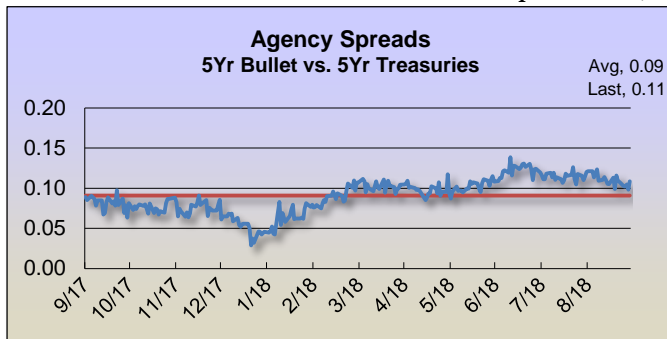
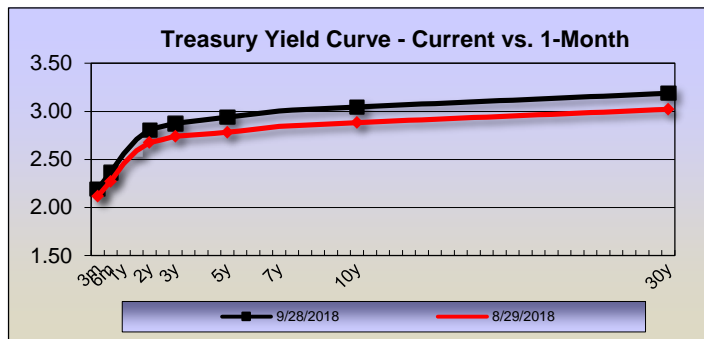
But hey, there's nothing soft about consumer confidence! The Conference Board announced on Tuesday that its Confidence Index jumped, yet again, to a new high of 138.4 from 134.7. It was expected, by those with less confidence, to drop slightly. This is a departure from the University of Michigan's Sentiment Index which dipped slightly to 100.1 from 100.8. For its part, the BEA reported that Personal Income and Personal Spending were a "push" with each measure rising by 0.3%. Inflation-adjusted spending inched up by 0.2%; not a lot, but at least it's out of the negative range it was in not too long ago.

The nation's Trade Balance, which isn't very balanced at all, became more negative last month as the size of the deficit grew to -\$76B from -\$72B. Trade wars are easy to win, or so we've been told. And maybe that's the case, but houses are getting harder to sell. The sale of New Homes flat-lined last month, and Pending Homes Sales, a prominent leading indicator, declined by 1.8% in August making that the fourth decline in the last five months. Manufacturing activity appears to be in a funk as well as Federal Reserve Banks in Chicago, Dallas, and Kansas City reported declines in their measures of sector activity. One manufacturing bright spot came out of the Richmond Fed with a report indicating a significant uptick in that region. Another big uptick came in the form of a 4.5% jump in orders for Durable Goods. But, if one strips out the volatile defense and transportation components, a core-like pace of capital expenditures can be gleaned as a harbinger of future capex spending. And unfortunately, that reading revealed a drop of 0.5%; not a growth-inspiring variable.

Overall, growth in general seems to have lost some inspiration as the Atlanta Fed lowered its Q3 forecast to 3.8% from 4.4%, while the gloomy ol' New York Fed anticipates just 2.5%. But, we were reminded this week, for the third time, that Q2 GDP was, and remains, 4.2%. Got it.

Bond prices are up today as investors "get" that the budget problems in Italy are not small and may not be contained within Italian shores. Treasury bonds are the beneficiary of such conditions and yields are down a bit across the curve. The closely watched Ten-Year remains slightly above 3% after trading above 3.10% earlier in the week.

Also closely watched is the biennial golf competition between Europe and America currently being played out in France. President Trump has already warned the Chinese, in his unique and friendly way, that no meddling will be tolerated. Have a great weekend everyone; 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	2.19	0.02	2.12	1.72	1.05	2yr	2.84	2.98	2.76	2.94	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.36	(0.01)	2.26	1.93	1.19	3yr	2.92	3.04	2.84	3.02	28.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.56	(0.01)	2.45	2.11	1.29	5yr	3.04	3.06	3.08	3.28	42.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.81	0.01	2.67	2.29	1.45	7yr	3.13	3.07	3.33	3.55	58.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.87	(0.01)	2.73	2.41	1.60	10yr	3.29	3.10	3.64	3.87	75.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.94	(0.01)	2.77	2.60	1.89	15yr	3.43	3.14	3.99	4.25	104.00	October TBA MBS				
7yr	3.00	(0.02)	2.84	2.72	2.13	20yr	3.57	3.15	4.33	4.60	93.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	3.05	(0.02)	2.88	2.78	2.31	25yr	3.70	3.13	4.41	4.69	95.00	2.00	3.48	5.0y		
30yr	3.19	(0.01)	3.03	3.02	2.87	30yr		3.12	4.49	4.78	97.00	2.50	3.23	5.2y		
												3.00	3.22	5.6y	3.56	9.9y
												3.50	3.35	5.2y	3.70	9.7y
												4.00			3.84	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	2.25	0.25	2.00	1.75	1.25
Primary Discount	2.75	0.25	2.50	2.25	1.75
2ndary Discount	3.25	0.25	3.00	2.75	2.25
Prime Rate	5.25	0.25	5.00	4.75	4.25
Sec. O.N. Finance	2.16				
1 Month LIBOR	2.26	0.04	2.07	1.88	1.24
3 Month LIBOR	2.40	0.03	2.32	2.30	1.33
6 Month LIBOR	2.60	0.02	2.52	2.45	1.50
1 Year LIBOR	2.92	0.02	2.82	2.67	1.79
6 Month CD	2.59	0.02	2.50	2.43	1.47
1 Year CMT	2.58	--	2.47	2.10	1.33
REPO O/N	2.32	0.31	2.04	1.80	1.05
REPO 1Wk	2.22	0.03	1.98	1.78	1.26
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	2.41	2.51	2.50
6mo	2.53	2.63	2.65
1yr	2.86	2.83	2.93
2yr	2.98	3.16	3.19
3yr	3.06	3.24	3.27
4yr	3.10	3.29	3.32
5yr	3.16	3.36	3.37
7yr	3.34	3.58	3.48
10yr	3.51	3.77	3.65
5yr Am	3.09		3.32
10yr Am	3.37		3.58

Fed Fund Futures	
Maturity	Rate
Sep-18	1.955
Oct-18	2.180
Nov-18	2.180
Dec-18	2.250
Jan-19	2.365
Feb-19	2.375
Mar-19	2.430
Apr-19	2.535
May-19	2.565
Jun-19	2.605
Jul-19	2.675

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
09/25	S&P CoreLogic CS 20-City YoY NSA	Jul	0.06	0.06	0.06	0.06
09/25	S&P CoreLogic CS US HPI YoY NSA	Jul	--	0.06	0.06	0.06
09/25	Conf. Board Consumer Confidence	Sep	132.10	138.40	133.40	134.70
09/25	Conf. Board Present Situation	Sep	--	#####	#####	#####
09/25	Conf. Board Expectations	Sep	--	#####	#####	#####
09/26	MBA Mortgage Applications	9/21	--	2.90%	1.60%	--
09/26	New Home Sales	Aug	630k	629k	627k	608k
09/26	FOMC Rate Decision (Upper Bound)	9/26	2.25%	2.25%	2.00%	--
09/26	FOMC Rate Decision (Lower Bound)	9/26	0.02	0.02	0.02	--
09/26	Interest Rate on Excess Reserves	9/27	--	2.20%	1.95%	--
09/27	Advance Goods Trade Balance	Aug	-\$70.6b	-\$75.8b	-\$72.2b	-\$72.0b
09/27	GDP Annualized QoQ	2Q T	0.04	0.04	0.04	--
09/27	Personal Consumption	2Q T	0.04	0.04	0.04	--
09/27	GDP Price Index	2Q T	3.00%	3.00%	3.00%	--
09/27	Core PCE QoQ	2Q T	2.00%	2.10%	2.00%	--
09/27	Durables Ex Transportation	Aug P	0.00	0.00	0.00	0.00
09/27	Cap Goods Ship Nondef Ex Air	Aug P	0.01	0.00	0.01	0.01
09/27	Initial Jobless Claims	9/22	210k	214k	201k	202k
09/27	Continuing Claims	9/15	1678k	1661k	1645k	--
09/27	Bloomberg Consumer Comfort	9/23	--	6120.00%	#####	--
09/27	Pending Home Sales NSA YoY	Aug	-0.01	-0.03	-0.01	-0.01
09/28	Personal Income	Aug	0.00	0.00	0.00	--
09/28	Real Personal Spending	Aug	0.00	0.00	0.00	0.00
09/28	PCE Deflator YoY	Aug	2.20%	2.20%	2.30%	--
09/28	PCE Core YoY	Aug	2.00%	2.00%	2.00%	--
09/28	Chicago Purchasing Manager	Sep	#####	6040.00%	#####	--
09/28	U. of Mich. Current Conditions	Sep F	--	#####	#####	--
09/28	U. of Mich. 1 Yr Inflation	Sep F	--	2.70%	2.80%	--
10/01	Markit US Manufacturing PMI	Sep F	--	--	#####	--
10/01	ISM Manufacturing	Sep	#####	--	#####	--
10/01	ISM Employment	Sep	--	--	#####	--
10/01	ISM Prices Paid	Sep	#####	--	#####	--
10/01	ISM New Orders	Sep	--	--	#####	--
10/03	ADP Employment Change	Sep	185k	--	163k	--
10/03	Markit US Composite PMI	Sep F	--	--	#####	--
10/03	ISM Non-Manufacturing Index	Sep	#####	--	#####	--
10/04	Challenger Job Cuts YoY	Sep	--	--	0.14	--
10/04	Factory Orders Ex Trans	Aug	--	--	0.00	--
10/05	Trade Balance	Aug	-\$52.2b	--	-\$50.1b	--
10/05	Change in Nonfarm Payrolls	Sep	185k	--	201k	--
10/05	Two-Month Payroll Net Revision	Sep	--	--	-50k	--
10/05	Change in Private Payrolls	Sep	183k	--	204k	--
10/05	Change in Manufact. Payrolls	Sep	15k	--	-3k	--
10/05	Unemployment Rate	Sep	3.80%	--	3.90%	--
10/05	Underemployment Rate	Sep	--	--	0.07	--
10/05	Average Hourly Earnings YoY	Sep	0.03	--	0.03	--
10/05	Labor Force Participation Rate	Sep	--	--	62.70%	--

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	12.1	17.5	13.4	22.4
FH/FN 15y	7.3	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
Currencies					
Japanese Yen	113.62	1.03	111.19	106.85	112.34
Euro	1.16	(0.01)	1.17	1.23	1.18
Dollar Index	95.14	0.92	94.72	90.06	93.09
Major Stock Indices					
Dow Jones	26,465	(278)	26,064	23,848	22,381
S&P 500	2,917.0	(12.7)	2,897.5	2,605.0	2,510.1
NASDAQ	8,035.5	49	8,030.0	6,949.2	6,453.5
Commodities					
Gold	1,191.5	(5.1)	1,207.4	1,324.2	1,285.5
Crude Oil	73.44	2.66	68.53	64.38	51.56
Natural Gas	3.01	0.03	2.85	2.70	3.02
Wheat	507.5	-14.3	498.3	445.5	455.0
Corn	355.3	-2.0	341.0	373.5	352.5

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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