

Baker Market Update: Week in Preview

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Just like in America, Canada celebrates Labour Day on the first Monday in September. And, even though they can't spell it right, everybody gets the day off. So, we all came through the long, holiday weekend without any new NAFTA deal. Many will recall that the deadline for a new trade agreement was last Friday, but President Trump, who is nothing if not flexible, is giving the provinces more time to work out the major sticking points. It is unclear if Canada's trade ministers realize that in the mind of the American President, the whole treaty is a sticking point. It is also unclear, based upon White House tweets, whether or not the President is clear on how this treaty thing works with Congress.

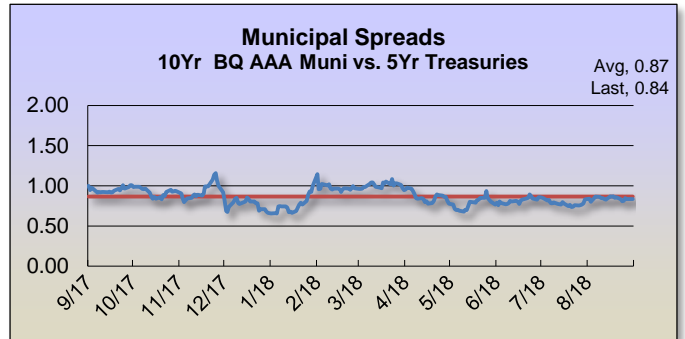
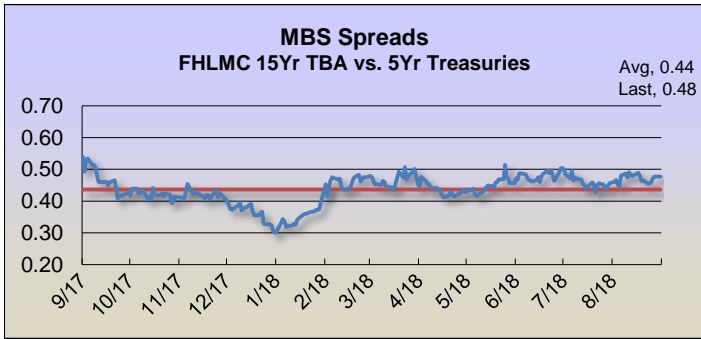
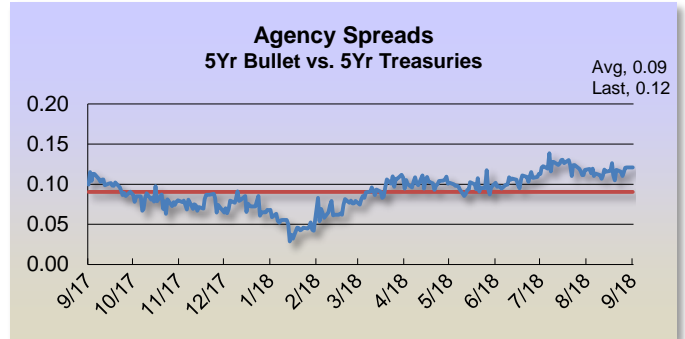
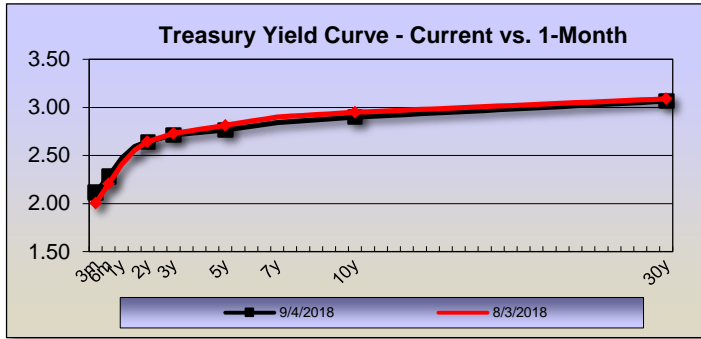
Markets appear to be opening up the week with a similar lack of clarity over how to react to NAFTA uncertainty on top of the pre-existing uncertainty over the pending imposition this week of \$200B worth of import taxes on Chinese goods. No one appears to be uncertain that retaliation by the Chinese will follow. So far this morning, the uncertainty that's driving down equity prices appears to be having a similar effect on bond prices. That in itself seems a bit counter-intuitive unless one believes that trade disruptions are an economic positive. The sell-off in Treasuries isn't quite as big as the sell-off in equities and the Ten-Year's yield remains a touch under 2.90%.

Maybe credit markets are looking ahead to the week's news and are feeling a little nervous about the potential for glowing performance reports. But, a look down the road may cause some to wonder why. The big news this week will be Friday's new Jobs Report from the BLS and from this far out, it's not giving off any signs of being a barn-burner. Early market surveys expect another slight dip in the Unemployment Rate off of a Non-Farm Payroll gain of around 195k. Wages are expected to remain unchanged, as are Average Weekly Hours.

Ahead of Friday's report, however, comes a slate of statistics that don't look particularly promising. The final Trade Balance report will show that the export/import deficit has become greater, Q2 Non-Farm Productivity was stagnant, and Q2 Unit Labor Costs actually fell almost one per-cent. We'll also learn on Thursday that Factory Orders fell last month as did new orders for Durable Goods. Unless, of course, we learn something else. The behavior today of the bid-hitting Treasury investors may *not* be counter-intuitive at all in light of the week's first surprise. The Institute of Supply Management's Manufacturing Index came in this morning at a barn-burning 61.3 when a slight decline from July's 58.1 was expected. The New Orders sub-index of that report was a similar, and similarly positive surprise.

A negative surprise for emerging markets came in the form of South Africa unexpectedly falling into a recession while the Argentinian economy continues to cry, but not for me. But, things might be looking up a bit for Italy as they work with the rest of the European Union over spending limits; a concept unknown in America. Big storms in the Gulf of Mexico are not, however, unknown in America and there's a big one there right now that has helped oil prices surge a bit today.

Still, investors' focus will likely remain on the trade negotiations with our neighbors to the north. The two sides could produce something in writing as early as this afternoon, pending the resolution of certain spelling issues. We'll visit again on Friday; 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	2.11	(0.00)	2.00	1.64	1.01	2yr	2.69	2.83	2.38	2.53	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.28	0.02	2.21	1.84	1.09	3yr	2.76	2.88	2.53	2.70	27.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.47	0.02	2.41	2.04	1.23	5yr	2.85	2.90	2.83	3.01	39.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.65	(0.02)	2.64	2.24	1.34	7yr	2.96	2.92	3.11	3.31	55.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.71	(0.02)	2.73	2.40	1.48	10yr	3.16	2.96	3.42	3.64	74.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.77	(0.01)	2.81	2.63	1.74	15yr	3.29	3.01	3.79	4.04	105.00	October TBA MBS				
7yr	2.84	0.00	2.90	2.79	1.99	20yr	3.43	3.02	4.06	4.32	98.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.90	0.02	2.95	2.87	2.17	25yr	3.56	3.01	4.14	4.41	100.00	2.00	3.24	5.0y		
30yr	3.06	0.03	3.09	3.14	2.78	30yr		3.00	4.23	4.50	102.00	2.50	3.08	5.3y		
												3.00	3.11	5.5y	3.45	9.7y
												3.50	3.24	5.1y	3.59	9.4y
												4.00			3.72	8.0y
												4.50			3.77	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	1.97				
1 Month LIBOR	2.11	0.04	2.08	1.67	1.23
3 Month LIBOR	2.32	--	2.35	2.02	1.32
6 Month LIBOR	2.54	0.01	2.53	2.22	1.45
1 Year LIBOR	2.84	0.02	2.83	2.50	1.71
6 Month CD	2.48	--	2.52	2.21	1.46
1 Year CMT	2.46	0.02	2.44	2.07	1.23
REPO O/N	2.04	--	1.98	1.46	1.13
REPO 1Wk	1.98	--	1.98	1.51	1.24
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					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	2.29	2.57	2.17	2.37	Sep-18	1.947
6mo	2.42	2.68	2.34	2.55	Oct-18	2.155
1yr	2.69	2.81	2.58	2.74	Nov-18	2.160
2yr	2.82	3.14	2.88	3.03	Dec-18	2.225
3yr	2.87	3.21	3.02	3.10	Jan-19	2.325
4yr	2.91	3.26	3.09	3.14	Feb-19	2.340
5yr	2.96	3.31	3.11	3.16	Mar-19	2.385
7yr	3.16	3.56	3.32	3.30	Apr-19	2.470
10yr	3.31	3.73	3.45	3.45	May-19	2.495
5yr Am	2.90		3.03	3.14	Jun-19	2.525
10yr Am	3.17		3.30	3.39	Jul-19	2.575

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
09/04	Markit US Manufacturing PMI	Aug F	54.50	--	54.50	--
09/04	ISM Manufacturing	Aug	57.60	61.30	58.10	--
09/04	ISM Employment	Aug	--	58.50	56.50	--
09/04	ISM Prices Paid	Aug	69.50	72.10	73.20	--
09/04	ISM New Orders	Aug	--	65.10	60.20	--
09/05	Trade Balance	Jul	-\$50.2b	--	-\$46.3b	--
09/06	Challenger Job Cuts YoY	Aug	--	--	-4.20%	--
09/06	ADP Employment Change	Aug	200k	--	219k	--
09/06	Nonfarm Productivity	2Q F	3.00%	--	2.90%	--
09/06	Unit Labor Costs	2Q F	-0.90%	--	-0.90%	--
09/06	Initial Jobless Claims	9/1	213k	--	213k	--
09/06	Continuing Claims	8/25	1720k	--	1708k	--
09/06	Markit US Composite PMI	Aug F	--	--	55.00	--
09/06	ISM Non-Manufacturing Index	Aug	56.80	--	55.70	--
09/06	Factory Orders Ex Trans	Jul	--	--	0.40%	--
09/06	Durables Ex Transportation	Jul F	--	--	0.20%	--
09/06	Cap Goods Orders Nondef Ex Air	Jul F	--	--	1.40%	--
09/06	Cap Goods Ship Nondef Ex Air	Jul F	--	--	0.90%	--
09/07	Change in Nonfarm Payrolls	Aug	195k	--	157k	--
09/07	Change in Private Payrolls	Aug	195k	--	170k	--
09/07	Change in Manufact. Payrolls	Aug	24k	--	37k	--
09/07	Unemployment Rate	Aug	3.80%	--	3.90%	--
09/07	Underemployment Rate	Aug	--	--	7.50%	--
09/07	Average Hourly Earnings YoY	Aug	2.70%	--	2.70%	--
09/07	Average Weekly Hours All Employees	Aug	34.50	--	34.50	--
09/07	Labor Force Participation Rate	Aug	--	--	62.90%	--
09/10	Consumer Credit	Jul	\$15.000b	--	\$10.211b	--
09/11	NFIB Small Business Optimism	Aug	108.20	--	107.90	--
09/11	JOLTS Job Openings	Jul	--	--	6662	--
09/12	PPI Final Demand YoY	Aug	--	--	3.30%	--
09/12	PPI Ex Food and Energy YoY	Aug	--	--	2.70%	--
09/12	PPI Ex Food, Energy, Trade YoY	Aug	--	--	2.80%	--
09/13	CPI YoY	Aug	2.80%	--	2.90%	--
09/13	CPI Ex Food and Energy YoY	Aug	2.40%	--	2.40%	--
09/13	CPI Index NSA	Aug	--	--	252.01	--
09/13	CPI Core Index SA	Aug	--	--	257.93	--
09/13	Initial Jobless Claims	9/8	--	--	--	--
09/13	Real Avg Weekly Earnings YoY	Aug	--	--	0.10%	--
09/13	Continuing Claims	9/1	--	--	--	--
09/13	Real Avg Hourly Earning YoY	Aug	--	--	-0.20%	--
09/13	Monthly Budget Statement	Aug	--	--	-\$76.9b	--
09/14	Retail Sales Ex Auto and Gas	Aug	0.50%	--	0.60%	--
09/14	Retail Sales Control Group	Aug	--	--	0.50%	--
09/14	Import Price Index YoY	Aug	--	--	4.80%	--
09/14	Export Price Index YoY	Aug	--	--	4.30%	--
09/14	Capacity Utilization	Aug	78.20%	--	78.10%	--
09/14	Manufacturing (SIC) Production	Aug	--	--	0.30%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.0	13.9	14.9	15.9	22.3	33.3
FH/FN 15y	7.5	6.6	6.1	7.5	14.9	18.1
GN 15y	15.3	12.9	12.7	13.5	13.5	14.9
FH/FN 20y		6.5	8.7	9.5	10.1	12.6
FH/FN 30y	2.1	6.1	4.0	4.1	4.5	7.0
GN 30y	12.9	10.9	13.6	15.2	15.8	16.5
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	12.3	11.6	12.2	17.7	14.4	22.7
FH/FN 15y	7.6	7.7	7.4	9.1	13.2	22.5
GN 15y	11.4	10.1	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	5.5	6.1	6.6	8.8	12.0
GN 30y	9.7	7.9	9.0	11.2	16.0	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	111.42	0.23	111.40	106.20	109.72
Euro	1.16	(0.01)	1.16	1.23	1.19
Dollar Index	95.60	0.82	95.16	89.94	92.81
Major Stock Indices					
Dow Jones	25,965	174	25,463	24,538	21,988
S&P 500	2,901.5	26.8	2,840.4	2,691.3	2,476.6
NASDAQ	8,109.5	164	7,812.0	7,257.9	6,435.3
Commodities					
Gold	1,192.7	(16.3)	1,214.2	1,323.4	1,326.6
Crude Oil	71.03	2.16	68.49	61.25	47.29
Natural Gas	2.84	(0.03)	2.85	2.70	3.07
Wheat	503.8	4.5	556.3	492.0	420.5
Corn	349.8	3.0	369.8	377.3	340.0

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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