

Baker Market Update: Week in Review

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"This is about as good as it gets," is not, refreshingly, one of those unattributable quotes from an unnamed senior administration official. But then again, this is not the New York Times and we give credit where credit is due. New York Fed President John Williams gets the credit for the above-referenced quote as he explained to reporters in Buffalo yesterday that the Central Bank's dual mandate of full employment combined with low inflation has, at long last, been achieved. Just in case his comment seemed abstruse, he went on to say that America was currently experiencing a "Goldilocks economy." Everybody knows what that means; not too hot, not too cold. Just right. Right?

What about today's Jobs Report? Well, no one would have minded if this morning's porridge had been a little hotter. The most positive nugget of labor news was August's 0.4% rise in Average Hourly Earnings; twice what was expected. For context, that monthly gain amounts to ten cents an hour, and the new year-over-year growth rate of 2.9% represents an hourly increase of seventy-seven cents for the last twelve months. That doesn't sound all that inflationary when expressed in dollars and cents, but credit markets are sensing that the mostly-absent wage inflation may not be absent much longer and the Fed will be justified in raising rates. But, unless you've been hibernating with Goldilocks' bears, that's not really news. And whether or not its bed was too hard or too soft, the Treasury market has fallen out of it today with the Ten-Year yield threatening 2.95%.

The threats of those thinking about joining or re-joining the labor market are apparently empty ones as the BLS reported an unexpected plunge in the Labor Force Participation Rate from 62.9% to 62.7%. Had that not happened, the unchanged Unemployment Rate of 3.9% *would* have changed, and not in a good way. The jobs count of the last two reports was changed, and not in a good way. The two-month revision reduced the previously reported jobs count by 50k. Today's reported gain of 201k in August won't be revised until next month. Meanwhile, as press reports celebrate and describe labor conditions as super-tight, there are now more than 96 million working-age civilians, 692k *more* than last month, who have chosen to remain out of the labor force, and even though that news is definitely "fit to print", you probably won't find it printed in the New York Times.

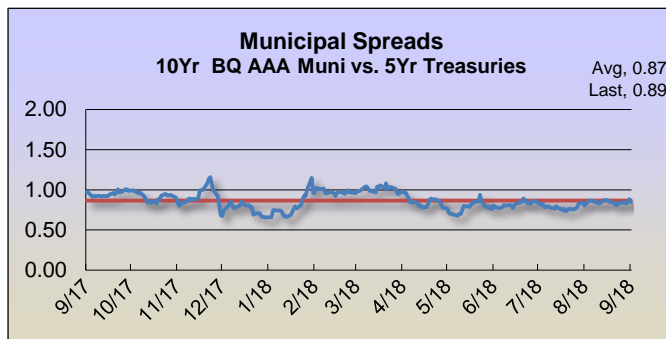
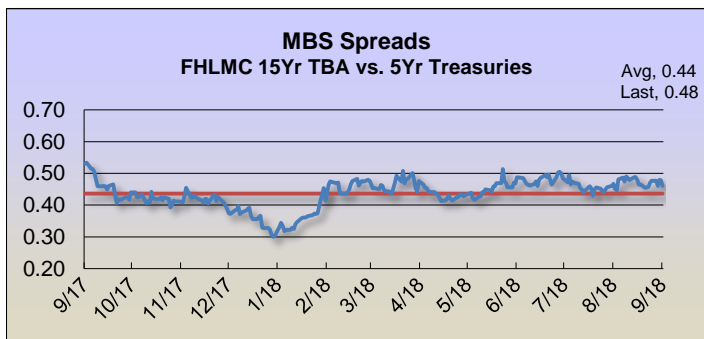
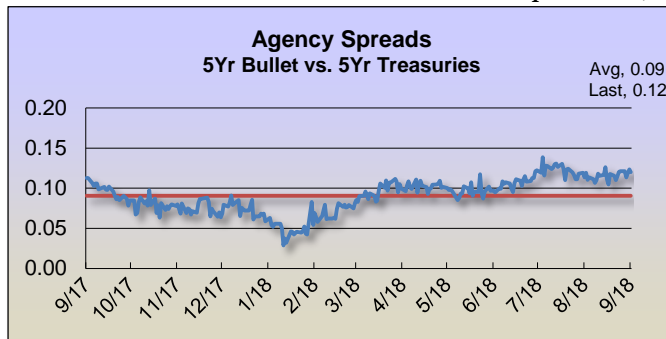
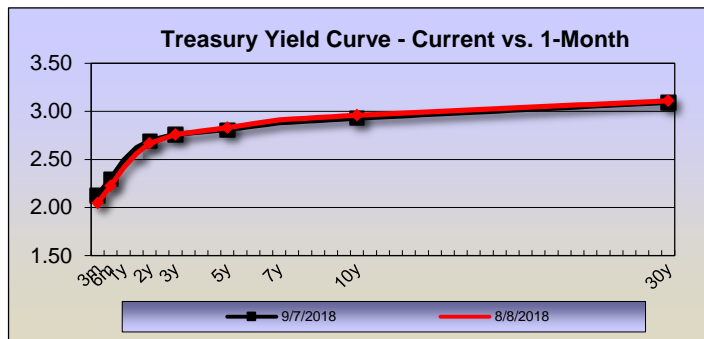
Earlier in the week, the Institute for Supply Management printed an astounding report that revealed that its Manufacturing Index soared to 61.3 from 58.1. That's nice, but the manufacturing sector, according to the Bureau of Labor Statistics, lost three-thousand jobs last month. Along similar lines, the Challenger, Gray, and Christmas Private Payroll report indicated an astounding 13.7% rise in job cuts. That's right, job *cuts*. For the actual people on the receiving end of those job cuts, please visit www.bls.org in case you're not convinced that the Unemployment Rate didn't go up.

Also not going up were Factory Orders (down 0.8%) and Durable Goods Orders (down 1.7%). Should that have happened in the midst of this "boom?" That's like asking whether or not the Trade Deficit narrowed as a result of the latest tariff provided protection. Oops, maybe one *shouldn't* ask that because the deficit grew from -\$45.7B to -\$50.1B. Maybe if we were just more productive. Unfortunately, the BLS also reported that, at least for the second-quarter, non-Farm Productivity was unchanged.

Most observers are pretty sure, however, that the Fed won't leave the Funds rate unchanged when they meet later this month. Most of those observers are pretty okay with that, but not quite everyone. Jim Bullard from the Show-Me Fed and Neel Kashkari from the Fed of Ten-Thousand Lakes both intimated publicly this week that it might be wise to visit a rest stop on the road to tightening. They both have a *voice* at the big, shiny table, but, at least for the rest of this year, they can only *vote* in the newspaper.

But, not all newsworthy news makes it into the newspaper. That's why we are excited to serve, along with Lunch, the news of a new strategic alliance between The Baker Group and FinPro, Inc., a full-service management consulting firm. The synergy created by this new alliance will allow us to offer a whole new range of services, from strategic planning to assisting in mergers and acquisitions, and everything in-between, to our clients. It is, and has been, the goal of The Baker Group to be a one-stop-shop for meeting the needs of our clients and clients-to-be. Teaming up with FinPro gets us all that much closer to achieving that goal. And, you won't have to depend on some anonymous source to get the juicy details. Just talk to your friendly and knowledgeable Baker representative.

Until next week, be careful out there, and please join us for coffee on Monday morning.



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	2.13	0.03	2.05	1.68	1.04	2yr	2.75	2.88	2.45	2.61	22.00	2Yr	1.94	1.94	1.94	-
6mo	2.30	0.03	2.23	1.87	1.14	3yr	2.82	2.93	2.59	2.76	27.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.49	0.04	2.42	2.04	1.20	5yr	2.91	2.94	2.88	3.07	39.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.69	0.07	2.67	2.25	1.26	7yr	3.01	2.96	3.16	3.37	55.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.76	0.07	2.76	2.42	1.38	10yr	3.21	3.00	3.46	3.68	75.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.81	0.07	2.84	2.65	1.63	15yr	3.34	3.04	3.82	4.07	106.00	October TBA MBS				
7yr	2.88	0.07	2.92	2.81	1.87	20yr	3.47	3.05	4.12	4.38	98.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.93	0.07	2.97	2.88	2.04	25yr	3.59	3.04	4.20	4.47	100.00	2.00	3.24	5.0y		
30yr	3.09	0.07	3.12	3.15	2.66	30yr		3.03	4.28	4.56	102.00	2.50	3.13	5.3y		
												3.00	3.15	5.5y	3.49	9.7y
												3.50	3.28	5.1y	3.62	9.4y
												4.00			3.75	8.0y
												4.50			3.80	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	1.94				
1 Month LIBOR	2.12	0.04	2.08	1.70	1.23
3 Month LIBOR	2.32	--	2.34	2.03	1.32
6 Month LIBOR	2.54	0.01	2.52	2.23	1.46
1 Year LIBOR	2.84	0.01	2.83	2.50	1.71
6 Month CD	2.52	0.02	2.52	2.24	1.43
1 Year CMT	2.50	0.03	2.44	2.06	1.24
REPO O/N	2.02	--	1.98	1.34	1.08
REPO 1Wk	1.98	--	1.98	1.51	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					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	2.31	2.43	2.17	2.38	Sep-18	1.947
6mo	2.44	2.54	2.34	2.56	Oct-18	2.160
1yr	2.75	2.72	2.58	2.80	Nov-18	2.160
2yr	2.87	3.04	2.88	3.08	Dec-18	2.235
3yr	2.94	3.13	3.02	3.16	Jan-19	2.345
4yr	2.98	3.18	3.09	3.20	Feb-19	2.360
5yr	3.04	3.24	3.11	3.24	Mar-19	2.410
7yr	3.24	3.48	3.32	3.38	Apr-19	2.510
10yr	3.40	3.66	3.45	3.54	May-19	2.535
5yr Am	2.97		3.03	3.21	Jun-19	2.575
10yr Am	3.26		3.30	3.47	Jul-19	2.630

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
09/04	Markit US Manufacturing PMI	Aug F	54.50	54.70	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	MBA Mortgage Applications	8/31	--	-0.10%	-1.70%	--
09/05	Trade Balance	Jul	-\$50.2b	-\$50.1b	-\$46.3b	-\$45.7b
09/06	Challenger Job Cuts YoY	Aug	--	13.70%	-4.20%	--
09/06	ADP Employment Change	Aug	200k	163k	249k	217k
09/06	Nonfarm Productivity	2Q F	3.00%	2.90%	2.90%	--
09/06	Unit Labor Costs	2Q F	-0.90%	-1.00%	-0.90%	--
09/06	Initial Jobless Claims	9/1	213k	203k	213k	--
09/06	Continuing Claims	8/25	1720k	1707k	1708k	1710k
09/06	Bloomberg Consumer Comfort	9/2	--	58.00	58.30	--
09/06	Markit US Composite PMI	Aug F	--	54.70	55.00	--
09/06	ISM Non-Manufacturing Index	Aug	56.80	58.50	55.70	--
09/06	Factory Orders Ex Trans	Jul	--	0.20%	0.40%	--
09/06	Durables Ex Transportation	Jul F	--	0.10%	0.20%	--
09/06	Cap Goods Ship Nondef Ex Air	Jul F	--	1.00%	0.90%	--
09/07	Change in Nonfarm Payrolls	Aug	190k	201k	157k	147k
09/07	Two-Month Payroll Net Revision	Aug	--	-50k	--	--
09/07	Change in Private Payrolls	Aug	194k	204k	170k	153k
09/07	Change in Manufact. Payrolls	Aug	23k	-3k	37k	18k
09/07	Unemployment Rate	Aug	3.80%	3.90%	3.90%	--
09/07	Underemployment Rate	Aug	--	7.40%	7.50%	--
09/07	Average Hourly Earnings YoY	Aug	2.70%	2.90%	2.70%	--
09/07	Average Weekly Hours All Employees	Aug	34.50	34.50	34.50	--
09/07	Labor Force Participation Rate	Aug	--	62.70%	62.90%	--
09/10	Consumer Credit	Jul	\$14.100b	--	\$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	3.20%	--	3.30%	--
09/12	PPI Ex Food and Energy YoY	Aug	2.70%	--	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	252.42	--	252.01	--
09/13	CPI Core Index SA	Aug	--	--	257.93	--
09/13	Initial Jobless Claims	9/8	210k	--	203k	--
09/13	Real Avg Weekly Earnings YoY	Aug	--	--	0.10%	--
09/13	Continuing Claims	9/1	--	--	1707k	--
09/13	Real Avg Hourly Earning YoY	Aug	--	--	-0.20%	-0.10%
09/14	Retail Sales Ex Auto and Gas	Aug	0.50%	--	0.60%	--
09/14	Import Price Index YoY	Aug	--	--	4.80%	--
09/14	Export Price Index YoY	Aug	--	--	4.30%	--
09/14	U. of Mich. Current Conditions	Sep P	--	--	110.30	--
09/14	U. of Mich. 1 Yr Inflation	Sep P	--	--	3.00%	--

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	11.5	12.2	17.7	14.3	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	6.5	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	111.19	0.16	111.38	106.07	108.45
Euro	1.16	(0.00)	1.16	1.24	1.20
Dollar Index	95.29	0.57	95.19	89.64	91.66
Major Stock Indices					
Dow Jones	25,946	(41)	25,629	24,801	21,785
S&P 500	2,877.7	(23.4)	2,858.5	2,726.8	2,465.1
NASDAQ	7,943.1	(145)	7,883.7	7,396.6	6,397.9
Commodities					
Gold	1,197.0	(3.0)	1,209.6	1,327.6	1,346.5
Crude Oil	67.12	(3.13)	69.17	61.15	49.09
Natural Gas	2.77	(0.11)	2.90	2.78	2.98
Wheat	486.0	-29.8	574.5	502.0	421.8
Corn	353.0	12.0	370.8	379.3	341.8

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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