

Week in Review

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While the arrival of August may herald the dog days of summer, this morning’s Jobs Report was no dog. No offense to our canine friends, but without the viewing lens of the “new normal”, a report like this ten years ago would have had four legs and a tail. But that was then. Now, the 209k addition to Non-Farm Payrolls looks like a barn burner, especially in light of the 180k expectation. And, our already fully-employed economy became even more fully-employed as the Unemployment Rate fell by a tenth to 4.3%. Yet, Average Hourly Earnings growth remains unchanged at 2.5% year-over-year. The biggest job gainers (+53k) were food services and drinking places as the nation readies itself for football season. Go team!

From the Bureau of Economic Analysis (BEA) we learned earlier in the week that Personal Spending grew by an uninspiring 0.1% while Personal Income didn’t grow at all. That’s no fun. Neither was the 1.3% decline in Construction Spending. Some minor slippage was also seen in the Institute of Supply Management (ISM) Manufacturing Index as it sunk to 56.3 from 57.8 while the Chicago Purchasing Managers Index saw some major slippage from 65.7 to 58.9. Both measures, however, remain solidly above the growth/retrenchment line of 50, and while that’s still good, the trending declines are not.

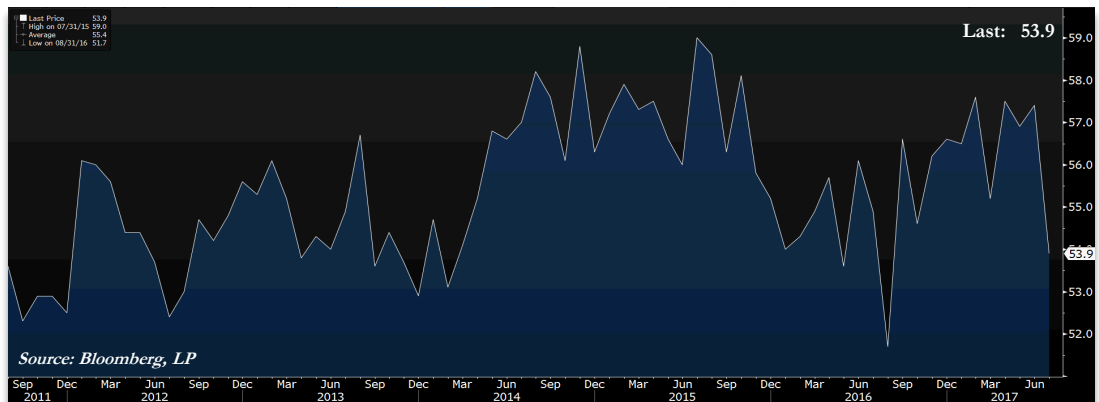
Leaning once again on the perspective of relativity, those looking for inflation got some relatively good news; it didn’t fall. The Personal Consumption Expenditures Core Index favored by the FOMC remained unchanged at 1.5% year-over-year. They’re still looking for 2% and still not seeing it. What they *are* seeing is a rather precipitous drop in the ISM Services Index to 53.9 from 57.4, and that’s the lowest it’s been since last August. The combination of these declines in both manufacturing and services indices could prove challenging for Q3 growth prospects. Only time will tell.

In the meantime, final numbers were released for Durable Goods orders in June and they looked pretty solid with a 6.4% rise. Without Transportation components, though, the rise was barely a blip at 0.1%. Similarly, the 3% boost to Factory Orders becomes a decline of 0.2% without Transportation inputs. For those tracking the odds of another rate hike by the Fed, the current implied probability of a third hike this year is slightly less than 40%.

Market reactions to the week’s news, including this morning’s Labor Report, were muted. A slight sell-off in Treasuries today puts the Benchmark Ten-Year yield at around 2.26%, and that is still slightly below where it started the week. Next week may be different as we learn more about Non-Farm Productivity and Unit Labor Costs. Fresh inflation reports via Consumer and Producer Price Indices are also due for release. Till then, markets participants seem content to let sleeping dogs lie. It’s August, after all.

This measure of activity in the services sector has fallen for two of the last three months and three of the last five, taking it to the lowest level in a year.

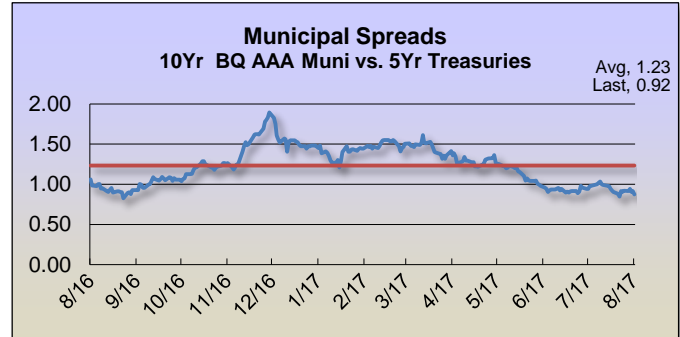
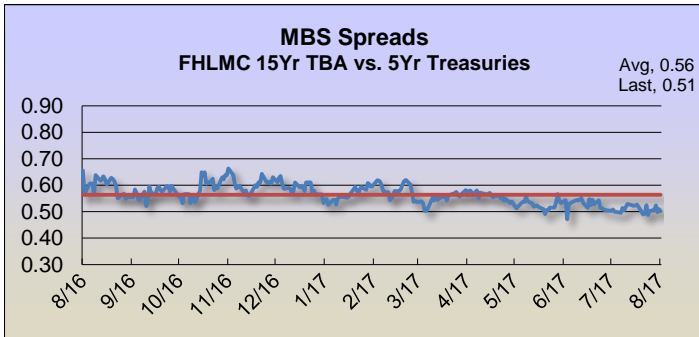
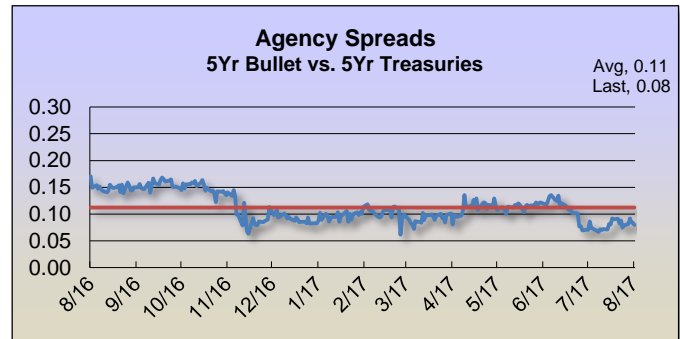
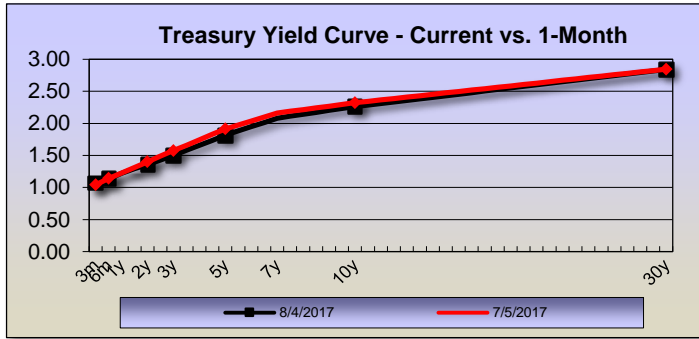
**Institute of Supply Management Non-Manufacturing Index**



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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	1.07	(0.01)	1.03	0.50	0.26	2yr	1.44	1.61	1.29	1.37	1.56	2Yr	1.45	1.45	1.44	-
6mo	1.14	0.01	1.14	0.63	0.40	3yr	1.59	1.73	1.40	1.49	1.80	3Yr	1.64	1.67	1.67	1.61
1yr	1.22	0.01	1.25	0.80	0.50	5yr	1.91	1.91	1.65	1.76	2.29	5Yr	1.92	1.97	1.99	1.95
2yr	1.35	0.01	1.41	1.20	0.64	7yr	2.18	2.07	2.06	2.19	2.55	7Yr	2.10	2.17	2.22	2.21
3yr	1.50	(0.00)	1.59	1.46	0.77	10yr	2.53	2.25	2.69	2.86	2.97	10Yr	2.32	2.40	2.47	2.48
5yr	1.82	(0.02)	1.93	1.91	1.03	15yr	2.80	2.42	3.28	3.49	3.44	September TBA MBS				
7yr	2.08	(0.02)	2.19	2.25	1.31	20yr	3.07	2.50	3.54	3.77	3.53	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.26	(0.03)	2.35	2.47	1.50	25yr	3.35	2.53	3.67	3.90	3.58	2.00	2.29	5.8y	2.98	
30yr	2.84	(0.05)	2.87	3.09	2.25	30yr		2.54	3.79	4.04	3.63	2.50	2.29	5.4y		
												3.00	2.32	4.8y	2.95	9.0y
												3.50	2.23	3.7y	2.94	6.5y
												4.00			2.92	5.8y
												4.50			2.62	4.5y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.25	--	1.25	0.75	0.50
Primary Discount	1.75	--	1.75	1.25	1.00
2ndary Discount	2.25	--	2.25	1.75	1.50
Prime Rate	4.25	--	4.25	3.75	3.50
1 Month LIBOR	1.23	--	1.22	0.78	0.49
3 Month LIBOR	1.31	--	1.30	1.03	0.77
6 Month LIBOR	1.45	--	1.45	1.35	1.13
1 Year LIBOR	1.73	--	1.74	1.71	1.44
6 Month CD	1.43	0.01	1.39	1.31	1.33
1 Year CMT	1.22	--	1.24	0.82	0.53
REPO O/N	1.08	0.01	1.13	0.57	0.51
REPO 1Wk	1.19	--	1.19	0.70	0.23
CoF Federal	1.354	--	1.302	1.146	1.097
11th D. CoF (Jun)	0.657	--	0.648	0.599	0.690

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	1.24	1.40	1.25	1.40	Aug-17	1.158
6mo	1.28	1.41	1.30	1.43	Sep-17	1.155
1yr	1.46	1.48	1.43	1.55	Oct-17	1.165
2yr	1.56	1.77	1.60	1.78	Nov-17	1.180
3yr	1.74	1.94	1.82	1.95	Dec-17	1.225
4yr	1.88	2.10	1.97	2.10	Jan-18	1.270
5yr	2.01	2.24	2.10	2.21	Feb-18	1.275
7yr	2.37	2.64	2.47	2.52	Mar-18	1.295
10yr	2.72	3.00	2.81	2.86	Apr-18	1.330
5yr Am	1.81		1.91	2.07	May-18	1.340
10yr Am	2.35		2.86	2.58	Jun-18	1.370

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Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
07/31	Chicago Purchasing Manager	Jul	60.00	58.90	65.70	--
07/31	Pending Home Sales NSA YoY	Jun	--	0.70%	0.50%	0.70%
08/01	Personal Income	Jun	0.40%	0.00%	0.40%	0.30%
08/01	Real Personal Spending	Jun	0.10%	0.00%	0.10%	0.20%
08/01	PCE Deflator YoY	Jun	1.30%	1.40%	1.40%	1.50%
08/01	PCE Core YoY	Jun	1.40%	1.50%	1.40%	1.50%
08/01	Markit US Manufacturing PMI	Jul F	53.20	53.30	53.20	--
08/01	ISM Manufacturing	Jul	56.50	56.30	57.80	--
08/01	ISM Prices Paid	Jul	55.80	62.00	55.00	--
08/01	ISM New Orders	Jul	--	60.40	63.50	--
08/01	ISM Employment	Jul	--	55.20	57.20	--
08/01	Wards Domestic Vehicle Sales	Jul	13.10m	12.96m	12.79m	12.96m
08/02	MBA Mortgage Applications	7/28	--	-2.80%	0.40%	--
08/02	ADP Employment Change	Jul	190k	178k	158k	191k
08/03	Challenger Job Cuts YoY	Jul	--	-37.60%	-19.30%	--
08/03	Initial Jobless Claims	7/29	243k	240k	244k	245k
08/03	Continuing Claims	7/22	1958k	1968k	1964k	1965k
08/03	Markit US Composite PMI	Jul F	--	54.60	54.20	--
08/03	Factory Orders Ex Trans	Jun	--	-0.20%	-0.30%	-0.10%
08/03	Durables Ex Transportation	Jun F	--	0.10%	0.20%	--
08/03	Cap Goods Ship Nondef Ex Air	Jun F	--	0.10%	0.20%	--
08/04	Change in Nonfarm Payrolls	Jul	180k	209k	222k	231k
08/04	Two-Month Payroll Net Revision	Jul	--	2k	--	--
08/04	Change in Private Payrolls	Jul	180k	205k	187k	194k
08/04	Change in Manufact. Payrolls	Jul	5k	16k	4k	12k
08/04	Unemployment Rate	Jul	4.30%	4.30%	4.40%	--
08/04	Average Hourly Earnings YoY	Jul	2.40%	2.50%	2.50%	--
08/04	Average Weekly Hours All Employees	Jul	34.50	34.50	34.50	--
08/04	Labor Force Participation Rate	Jul	--	62.90%	62.80%	--
08/04	Underemployment Rate	Jul	--	8.60%	8.60%	--
08/04	Trade Balance	Jun	-\$44.5b	-\$43.6b	-\$46.5b	-\$46.4b
08/07	Mortgage Delinquencies	2Q	--	--	4.71%	--
08/07	MBA Mortgage Foreclosures	2Q	--	--	1.39%	--
08/08	NFIB Small Business Optimism	Jul	103.80	--	103.60	--
08/08	JOLTS Job Openings	Jun	--	--	5666	--
08/09	Nonfarm Productivity	2Q P	0.80%	--	0.00%	--
08/09	Unit Labor Costs	2Q P	1.00%	--	2.20%	--
08/10	PPI Final Demand YoY	Jul	2.30%	--	2.00%	--
08/10	PPI Ex Food and Energy YoY	Jul	2.10%	--	1.90%	--
08/10	PPI Ex Food, Energy, Trade YoY	Jul	--	--	2.00%	--
08/10	Monthly Budget Statement	Jul	--	--	-\$90.2b	--
08/11	CPI YoY	Jul	1.80%	--	1.60%	--
08/11	CPI Ex Food and Energy YoY	Jul	1.70%	--	1.70%	--
08/11	CPI Core Index SA	Jul	--	--	251.63	--
08/11	CPI Index NSA	Jul	244.92	--	244.96	--
08/11	Real Avg Weekly Earnings YoY	Jul	--	--	1.10%	1.20%
08/11	Real Avg Hourly Earning YoY	Jul	--	--	0.80%	0.90%

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.6	12.1	14.7	17.0	21.3	21.5
FH/FN 15y	7.7	8.7	10.7	12.4	15.4	18.1
GN 15y	8.3	12.5	14.3	13.7	14.3	16.0
FH/FN 20y		4.8	7.8	10.4	12.2	14.8
FH/FN 30y	5.3	5.4	7.4	10.4	13.2	15.8
GN 30y	10.2	10.5	13.8	15.7	17.5	20.1

CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	10.9	12.1	12.7	16.7	19.2	21.2
FH/FN 15y	5.7	7.9	10.9	12.6	18.9	24.3
GN 15y	10.2	8.6	11.9	14.2	13.3	15.8
FH/FN 20y	3.1	6.5	10.6	15.0	16.3	16.5
FH/FN 30y	5.5	6.3	7.2	11.4	13.7	18.1
GN 30y	7.5	8.8	10.0	12.6	15.7	17.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	110.91	0.23	113.28	111.74	101.22
Euro	1.18	0.00	1.13	1.08	1.11
Dollar Index	93.67	0.41	96.22	99.87	95.76
<b>Major Stock Indices</b>					
Dow Jones	22,060	229	21,479	20,071	18,352
S&P 500	2,476.8	4.7	2,429.0	2,297.4	2,164.3
NASDAQ	6,353.8	(21)	6,110.1	5,666.8	5,166.2
<b>Commodities</b>					
Gold	1,256.2	(12.2)	1,219.2	1,218.5	1,358.8
Crude Oil	49.24	(0.47)	47.07	53.83	41.93
Natural Gas	2.79	(0.15)	2.95	3.06	2.83
Wheat	458.5	-22.5	536.8	430.3	403.3
Corn	367.0	-7.3	378.0	365.3	320.8

Notes	
1	Call Agy = Maturity at left w/ a 1-Year Call at Par
2	Muni TEY (34% Fed, 0.5% CoF)
3	S-Corp TEY Muni (39.6%, no TEFERA)
4	MBS Prepayments are provided by Bloomberg

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