CenterState
CORRESPONDENT DIVISION

Market Update

February 24, 2020

Treasuries

Treasury Curve	Today	Week Change
3 Month	1.52%	-0.05%
6 Month	1.47%	-0.08%
1 Year	1.34%	-0.13%
2 Year	1.25%	-0.16%
3 Year	1.21%	-0.17%
5 Year	1.21%	-0.18%
10 Year	1.37%	-0.19%
30 Year	1.82%	-0.19%

Short-Term Rates

Fed Funds	1.75%
Prime Rate	4.75%
3 Mo LIBOR	1.68%
6 Mo LIBOR	1.67%
12 Mo LIBOR	1.73%

Swap Rates

3 Year	1.205%
5 Year	1.187%
10 Year	1.285%

Economic Calendar

Date	Statistic	For	Briefing Forecast	Market Expects	Prior
Feb 25	S&P CoreLogic CS Home Price YoY	Feb	2.80%	2.80%	2.55%
Feb 25	Conf. Board Consumer Confidence	Fed	132.1	132.1	131.6
Feb 26	New Home Sales MoM	Jan	3.0%	3.0%	-0.4%
Feb 27	GDP Annualized QoQ	4Q S	2.1%	2.1%	2.1%
Feb 27	Durable Goods Orders MoM	Jan P	-1.5%	-1.5%	2.4%
Feb 27	Durables Ex-Transportation MoM	Jan P	0.2%	0.2%	-0.1%
Feb 27	Pending Home Sales MoM	Jan	3.0%	3.0%	-4.9%
Feb 28	Personal Income & Spending	Jan	0.3%	0.3%	0.3%
Feb 28	Advance Goods Trade Balance	Jan	-$68.5b	-$68.5b	-$68.3b

Top 5 Events for the Week

FEBRUARY 24-28, 2020

1. Coronavirus Developments–All Week
2. January Durable Goods Orders–Thursday
3. January Personal Income & Spending –Friday
4. January New and Pending Home Sales –Wed./Thurs.
5. January Advance Goods Trade Balance–Friday

A Surfeit of Economic News this Week but Virus Headlines Will Control Trading

Once again, coronavirus developments will drive trading more than any single economic release and that is certainly the case this morning. Revelations last week of cases spreading into Korea and Japan, not to mention Singapore, spurred strong flight-to-safety trades into Treasuries. Revelations over the weekend, however, of 219 new cases in Italy along with 5 deaths has spurred wholesale risk-off trades. The Dow is set to open nearly 900 points lower and the 10-year Treasury is yielding 1.36%, right on the all-time low set back in July 2016. With the new cases in Italy the spread of the virus through Europe has become a possibility and that has that region in risk-off mode as most stock markets are down 4%-5%. Fed funds futures now price a 25bps rate cut in June and 60bps of cuts by year-end. So, you can see the continued spread of the virus into Europe and the negative growth that that implies is set to dominate risk-off/flight-to-safety trades until some containment/vaccine for the virus arrives and that is not likely anytime soon. So, despite a full slate of economic releases, that we discuss in the following pages, trading will be driven by the virus headlines with the upcoming January economic releases discounted for the most part as occurring “pre-virus.”

1. Coronavirus Developments-All Week

Once again, coronavirus developments will drive trading more than any single economic release and that is certainly the case this morning. Revelations last week of cases spreading into Korea and Japan, not to mention Singapore, spurred strong flight-to-safety trades into Treasuries. Revelations over the weekend, however, of significant new cases in Italy along with deaths has spurred wholesale risk-off trades. Expectations are that global supply chain shortages will start to appear within days or weeks and that the next quarter or two will be a challenging period for manufacturing-based economies. While the U.S. is insulated perhaps more than any other developed economy, the spread of the virus into Europe certainly makes that insulation less durable. Also, travel and services sectors (see the mess with the cruise industry) will suffer slowing as well. It's just a question of how severe and for how long?

2. January Durable Goods Orders –Thursday

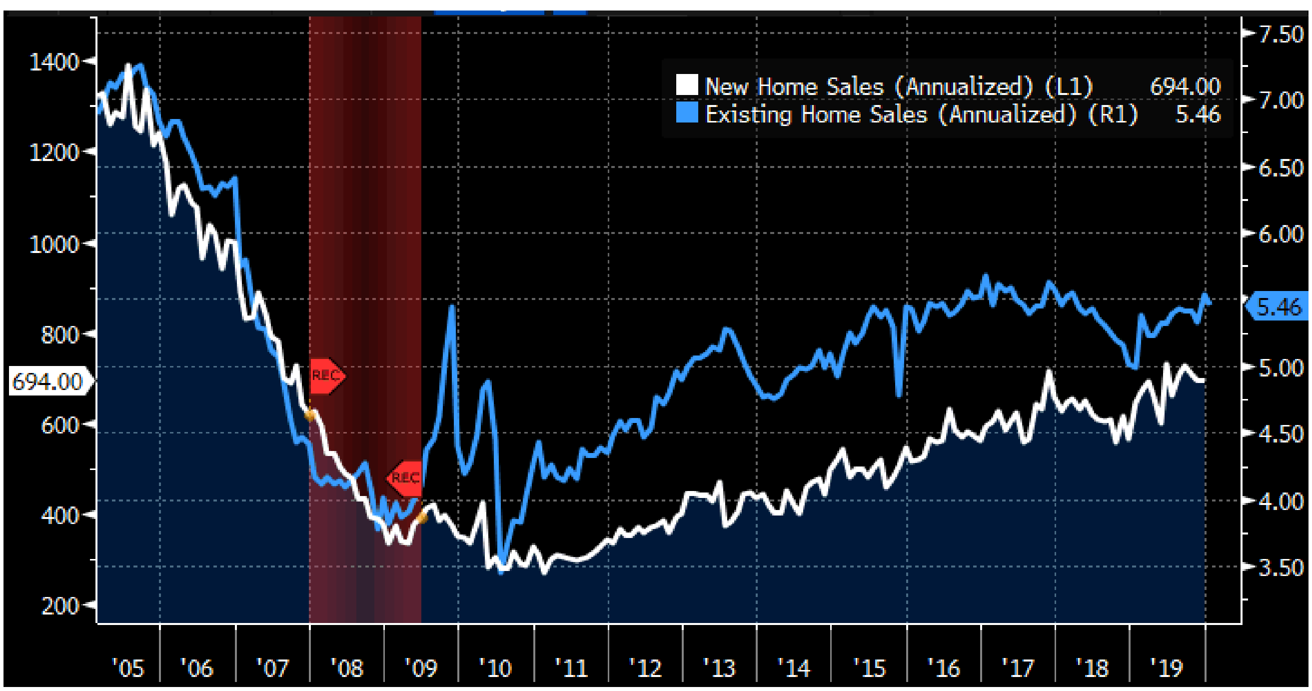
The manufacturing sector has been in a recession for nearly a year so if any sector is going to start seeing early weakness from the coronavirus it's bound to be manufacturing. For the month, overall orders are expected to decrease –1.5% versus a 2.4% increase in December. Orders ex the volatile transportation sector are expected to be better at 0.2%versus –0.1% the prior month. Shipments of nondefense ex-aircraft (a proxy for business investment) are also expected to be positive at 0.1% versus –0.3% in December. In summary a decent January report is expected but again may get discounted given the subsequent spreading of the coronavirus.

3. January Personal Income & Spending —Friday

Like much of the recent January data, the personal income and spending numbers will be discounted to a large extent given the spreading impact of the coronavirus but any early weakness will certainly add fuel to the Treasury rally. For the month, income is expected to have increased 0.3% versus 0.2% in December. Spending is also expected to have increased 0.3% matching the December print. Thus, spending is expected to have held up in January just as the virus story was starting to get dominant play. The Fed's preferred inflation measure, core PCE, is expected to increase 0.2% for the month matching the December increase while year-over-year it's expected to increase a tenth from 1.6% to 1.7%.

4. January New and Pending Home Sales —Wednesday/Thursday

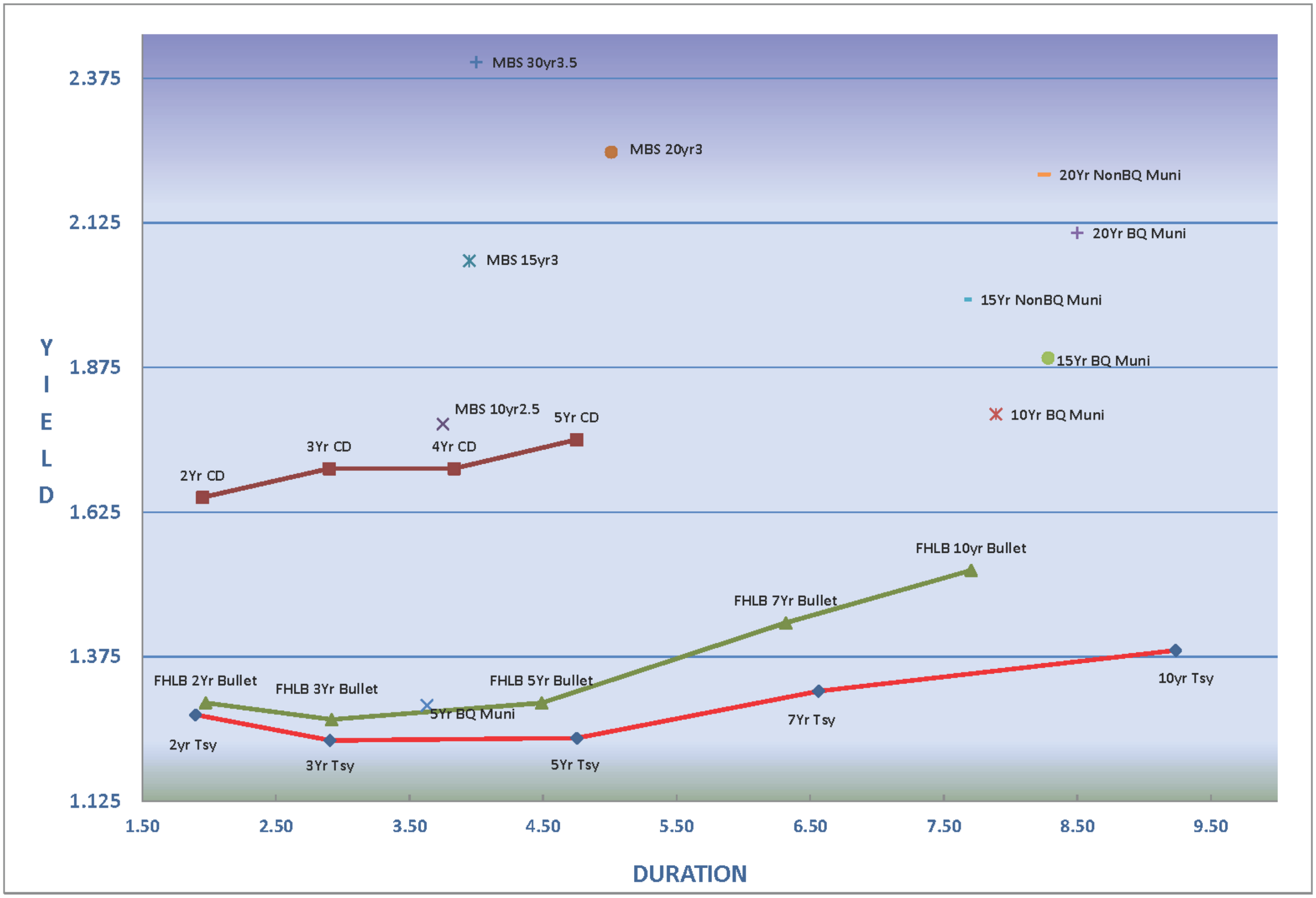
The housing sector has clearly responded well to the Fed's rate cuts and lower mortgage rates with increased sales activity and continued price appreciation in the mid-5% range. New home sales constitute just 10% of housing activity but given all the inputs into new construction have a broader impact than sales of existing homes. For the month, new home sales are expected to increase 3.0% to 715,000 (annualized) versus 694,000 in December. The average over the past year has been 681,500 so a beat on both the annual average and a slight sequential increase. Pending home sales of existing properties are based on contract signings and not on closings so they are perhaps the most timely of the housing data. Pending sales for January are expected to be up 1.9% versus December's disappointing –4.9% slump, so solid reads from both housing reports are expected.



5. January Advance Goods Trade Balance–Friday

The January goods trade balance is expected to widen to -$68.5 billion versus -$68.3 billion in December. The trade deficit has ranged from a twelve-month wide of -$75.2 billion last May to a narrow -$68.7 billion in November. The deficit was -$72.3 billion a year ago, so with all the trade-related headlines and tariffs, the deficit is expected to have narrowed by $4 billion over the last year but much of that comes from a reduction in imports rather than an increase in exports which hints at some softening in consumer spending.

Yield/Duration Opportunities



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