CenterState
CORRESPONDENT DIVISION

Market Update

May 7, 2018

Treasuries

Treasury Curve	Today	Week Change
3 Month	1.84%	+0.03%
6 Month	2.03%	+0.02%
1 Year	2.23%	UNCH
2 Year	2.49%	+0.01%
3 Year	2.63%	+0.01%
5 Year	2.78%	-0.02%
10 Year	2.94%	-0.01%
30 Year	3.11%	-0.01%

Short-Term Rates

Fed Funds	1.75%
Prime Rate	4.75%
3 Mo LIBOR	2.37%
6 Mo LIBOR	2.52%
12 Mo LIBOR	2.78%

Swap Rates

3 Year	2.851%
5 Year	2.912%
10 Year	2.981%

Economic Calendar

Date	Statistic	For	Briefing Forecast	Market Expects	Prior
May 8	NFIB Small Business Optimism	Apr	105.0	104.5	104.7
May 8	JOLTs Job Openings	Mar	6.100m	6.100m	6.052m
May 9	PPI MoM	Apr	0.2%	0.2%	0.3%
May 9	PPI Ex-Food & Energy MoM	Apr	0.2%	0.2%	0.3%
May 10	CPI MoM	Apr	0.3%	0.3%	-0.1%
May 10	CPI Ex-Food & Energy MoM	Apr	0.2%	0.2%	0.2%
May 11	Import Price Index MoM	Apr	0.5%	0.5%	0.0%
May 11	U. of Mich. Sentiment	May P	98.4	98.3	98.8
May 11	U. of Mich. 1yr Inflation	May P	2.7%	2.7%	2.7%

Top 5 Events for the Week

MAY 7-11, 2018

1. April Inflation Readings— Wednesday/Thursday
2. Fed Speakers—All Week
3. Treasury Refunding Auctions—Tue/Wed/Thur.
4. JOLTS Job Openings—Tuesday
5. Univ. of Mich. Preliminary May Sentiment— Friday

April CPI Inflation Reading Tops Week of Light Data

After a week of first-tier releases topped by the April jobs report, this week is much lighter but the April CPI reading on Thursday will be the key release. With core inflation readings nestled right at the Fed's desired benchmark of 2%, the April reading is expected to print a month-over-month gain of 0.2% and year-over-year 2.2% versus 2.1% in March. Combining these inflation gains with continued labor market gains will keep the Fed firmly on course for quarter-point hikes every three months. Other events this week will be the Treasury's auctions of 3yr ($31billion), 10yr ($25b), and 30yr ($17b) maturities. Also, Fed speakers return with investors keen on hearing more about the "symmetric" comment added to the inflation benchmark that was inserted in last week's statement.

1. **April Inflation Readings – Wednesday/Thursday**

With the jobs report behind us attention turns this week to the Fed's other mandate, and that is price stability. Wednesday we get April wholesale price readings in the form of PPI and Thursday we get the more important April CPI report. Expectations are calling for April to be up a robust 0.3% versus a -0.1% dip in March. The core rate (ex-food and energy) is expected to increase 0.2% matching the prior month gain. On a year-over-year basis, CPI is forecast to move 1/10th higher to 2.5% versus 2.4% in March while core CPI YoY is expected to inch up again to 2.2% from 2.1% the prior month. While the core PCE is the Fed's preferred inflation measure and remains under 2%, if core CPI continues to move above 2%, core PCE will eventually get there and the Fed will continue with plans to hike rates on a quarterly basis until further notice.

2. **Fed Speakers—All Week**

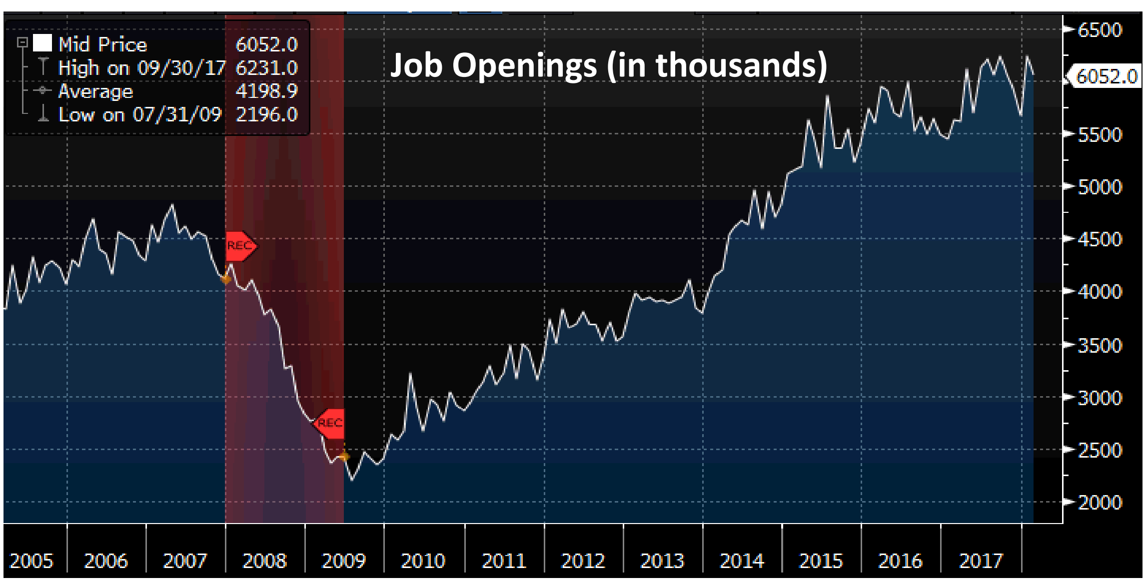
While the Fed meeting last week was pretty much as expected, the addition of the "symmetric" phrasing around the inflation benchmark may get further explanation as Fed officials return to various speaking events. Six speakers will take to podiums and while none are considered the real leaders at the Fed, the market will be attuned to any insight it can glean from the phrasing change at the last meeting. If it truly means a willingness to let inflation run hot, that could add some steepness to the curve with long rates rising and short rates rallying, or holding firm.

3. **Treasury Refunding Auctions—Tuesday/Wednesday/Thursday**

The Treasury will test the market's level of interest this week for longer-term debt as it sells a series of notes and bonds. Tomorrow, the Treasury will sell $31 billion in 3-year notes. On Wednesday, the longer-end of the curve will get tested with $25 billion in 10-year notes being offered, and $17 billion in 30-year bonds on Thursday will be sold. For context, in May 2017 the auction sizes were $24 billion (3yr), $23 billion (10yrs), and $15 billion (30yrs). As can be seen, the shorter-end is bearing the brunt of increased supply to date but that's expected to shift some in 2019 as additional increases in supply move further out the curve. Thus, supply-induced yield increases will be short-end events this year while longer-term issues are likely to see more impact next year.

4. **Job Openings and Labor Turnover Survey—Tuesday**

The JOLTs report (Job Openings and Labor Turnover) is due tomorrow and while March data, and thus a bit stale, it does provide a few additional indicators of job market health. The headline job openings number is expected to be 6.100 million versus February's 6.052 million print, and over the 5.995 million average over the past year, so another positive view of the labor market is expected. The Quits Rate is another number the Fed utilizes as it measures the rate workers are leaving jobs voluntarily. Think of it as a measure of worker confidence in finding other employment. The rate has been at 2.2% (quitters divided by total workers) over the past two months and peaked at 2.3% in December.

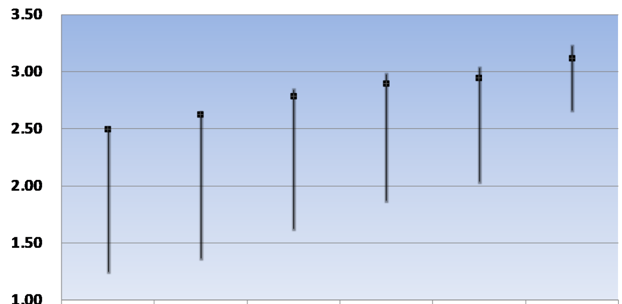


5. **University of Michigan Consumer Sentiment—Friday**

The preliminary read on May consumer sentiment on Friday is expected to print at 98.3 compared to April's 98.8. The sentiment index has averaged 97.3 over the past year so a slight uptick is forecast against the average but a small drift lower against the prior month. The survey also contains two inflation measures that are watched by the Fed. Consumers expect inflation over the next year to be 2.7% and the longer-run expectation (5-10 years) is slightly lower at 2.5%. These levels have been very stable over the last several months despite increases in CPI and other price measures. The Fed will be sensitive if consumers start to ratchet-up their inflation expectations, and that could add ammunition to the four-hikes-in-2018 contingent.

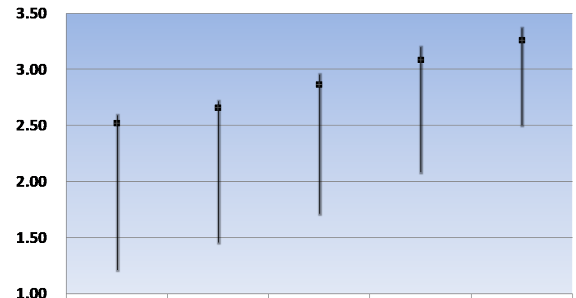
Investment Yield Ranges Over Last Year

US Treasuries



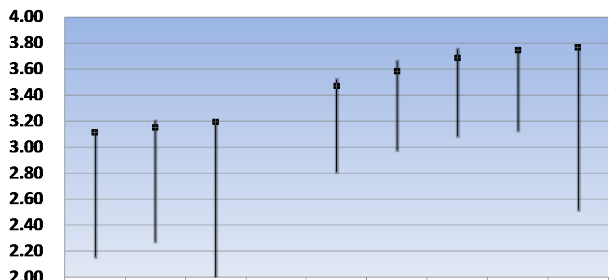
	2 year	3 year	5 year	7 year	10 year	30 year
▪ CURRENT	2.50	2.63	2.78	2.89	2.94	3.12
52 WEEK HIGH	2.51	2.64	2.84	2.97	3.03	3.22
52 WEEK LOW	1.25	1.37	1.63	1.87	2.04	2.66

FHLB (TAPs) Agency Bullets



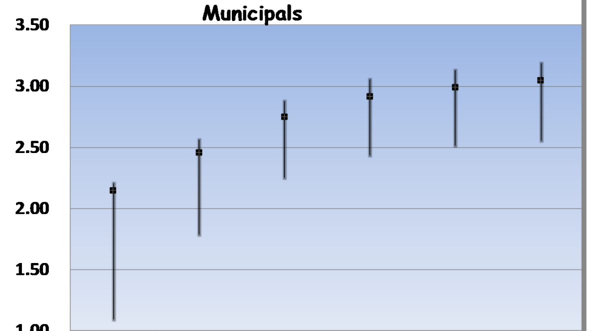
	2yr TAP	3yr TAP	5yr TAP	7yr TAP	10yr TAP
▪ CURRENT	2.52	2.66	2.87	3.08	3.26
52 WEEK HIGH	2.59	2.71	2.95	3.19	3.37
52 WEEK LOW	1.21	1.45	1.71	2.08	2.50

Mortgage Backed Securities (FNMA)



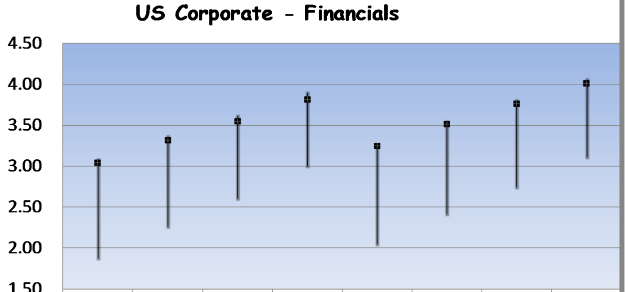
	15 yr 2.5%	15 yr 3.0%	15 yr 3.5%		30yr 3.0%	30yr 3.5%	30yr 4.0%	30yr 4.5%	30yr 5.0%
▪ CURRENT	3.12	3.15	3.19		3.47	3.58	3.69	3.74	3.77
52 WEEK HIGH	3.12	3.20	3.19		3.52	3.66	3.75	3.75	3.77
52 WEEK LOW	2.16	2.28	1.90		2.81	2.98	3.09	3.13	2.52

Municipals



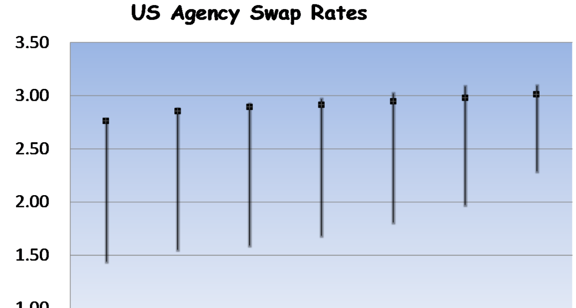
	5yr AAA	10yr AAA	15yr AAA	20yr AAA	25yr AAA	30yr AAA
▪ CURRENT	2.15	2.46	2.75	2.92	2.99	3.05
52 WEEK HIGH	2.21	2.56	2.88	3.06	3.13	3.19
52 WEEK LOW	1.10	1.79	2.25	2.44	2.52	2.56

US Corporate - Financials



	3yr AA	5yr AA	7yr AA	10yr AA	3yr A	5yr A	7yr A	10yr A
▪ CURRENT	3.04	3.31	3.55	3.82	3.25	3.52	3.76	4.01
52 WEEK HIGH	3.08	3.36	3.62	3.89	3.27	3.54	3.80	4.06
52 WEEK LOW	1.88	2.27	2.61	3.00	2.05	2.42	2.75	3.12

US Agency Swap Rates



	2yr	3yr	4yr	5yr	7yr	10yr	30yr
▪ CURRENT	2.77	2.85	2.90	2.92	2.95	2.98	3.01
52 WEEK HIGH	2.78	2.88	2.93	2.97	3.02	3.09	3.10
52 WEEK LOW	1.44	1.55	1.59	1.68	1.81	1.98	2.29

*Source: Bloomberg

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