CenterState
CORRESPONDENT DIVISION

Market Update

June 17, 2019

Treasuries

Treasury Curve	Today	Week Change
3 Month	2.17%	-0.10%
6 Month	2.18%	+0.01%
1 Year	2.02%	+0.01%
2 Year	1.86%	-0.01%
3 Year	1.80%	-0.04%
5 Year	1.84%	-0.04%
10 Year	2.09%	-0.03%
30 Year	2.59%	-0.03%

Short-Term Rates

Fed Funds	2.50%
Prime Rate	5.50%
3 Mo LIBOR	2.40%
6 Mo LIBOR	2.28%
12 Mo LIBOR	2.25%

Swap Rates

3 Year	1.827%
5 Year	1.839%
10 Year	2.031%

Economic Calendar

Date	Statistic	For	Briefing Forecast	Market Expects	Prior
June 17	Empire Manufacturing	Jun	10.5	-8.6 (actual)	17.8
June 17	NAHB Housing Market Index	Jun	67	67	66
June 18	Housing Starts	May	0.4%	0.4%	5.7%
June 18	Building Permits	May	0.2%	0.2%	0.2%
June 19	FOMC Rate Decision	Jun 19	2.25%-2.50%	2.25%-2.50%	2.25%-2.50%
June 19	Interest on Excess Reserves	Jun 19	2.35%	2.35%	2.35%
June 20	Philly Fed Business Optimism	Jun	12.0	10.4	16.6
June 20	Leading Index	May	0.1%	0.1%	0.2%
June 21	Existing Home Sales	May	1.4%	1.2%	-0.4%

Top 5 Events for the Week

JUNE 17 –21, 2019

1. FOMC Rate Decision –Wednesday
2. Geopolitical Developments –All Week
3. May Housing Activity–Tuesday/Friday
4. June Philly Fed Business Optimism –Thursday
5. May Leading Index –Thursday

How Dovish Will the Fed Be?

The question for this week is how dovish will the Fed be at its Wednesday FOMC meeting? Some are holding out hope the Fed will provide a dovish surprise for the fourth straight meeting and perhaps cut rates, but the solid May retail sales numbers (and positive April revisions), probably quashes those hopes. While we are likely to see a Fed move to an easing posture, setting up a July or September rate cut, that grudging response may disappoint a market that has priced in 75bps of rate cuts by year-end. Thus, some selling pressure may follow on the short-end while the long-end may rally as the market perceives the Fed's response as insufficient in light of moribund inflation pressure, slowing overseas economies, and increasing geopolitical risks.

1. FOMC Rate Decision —Wednesday

The FOMC rate decision on Wednesday will answer the question everyone wants answered and that is how dovish will the Fed be now? While the Fed has managed to provide some type of dovish surprise at every meeting this year, the only way to do that on Wednesday would be to cut rates, but the solid May retail sales numbers (and positive April revisions), most likely dashes those hopes. While the Fed is likely to move to an easing posture, setting up a July or September rate cut, that modest response will disappoint a market that has priced in 75bps of rate cuts by year-end. That may result in some selling pressure on the short-end while the long-end may rally as the market perceives the Fed's response as insufficient in light of moribund inflation pressures, slowing overseas economies, and increasing geopolitical risks.

2. Geopolitical Developments —All Week

With the Mexican tariffs suspended, and the market awaiting a possible G20 meeting between Xi and Trump later this month, the Persian Gulf tanker explosions have assumed the role of chief geopolitical risk for the week. While the U.S. accused Iran for the explosions, Iran disputes the allegation and the evidence for the U.S. claim is in doubt. The net result of the event and accusation is to heighten risks in an already volatile region, and that has boosted oil prices and given Treasuries a safe haven bid. Unfortunately, while we would like to see cooler heads prevail in such a situation that's not likely to be the case so expect the issue to continue to simmer and that will provide a backstop, if not boost, to Treasury prices.

3. May Housing Activity —Tuesday/Friday

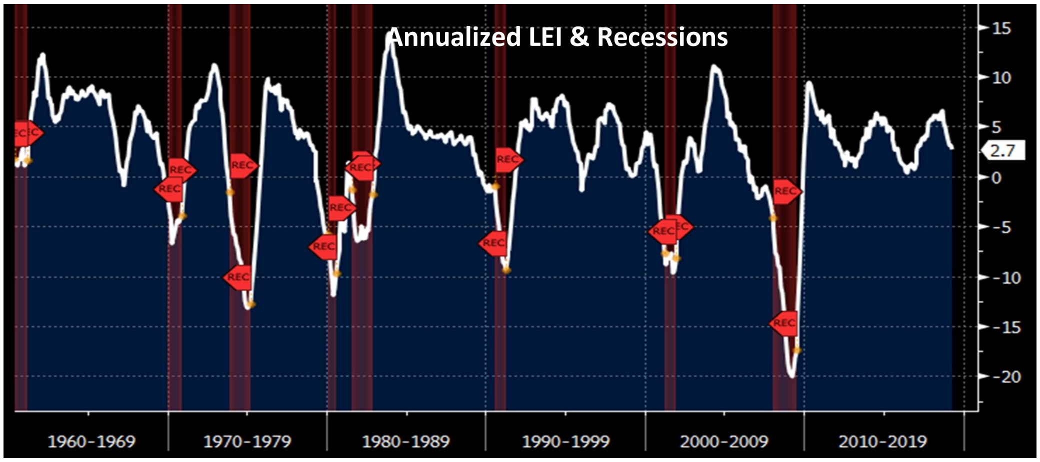
The housing market has started to recover from the slumber that it took for much of last year under the weight of quarterly rate hikes and the Fed will be looking for continued improvement as a sign the rate-hiking pause is having a positive impact. Tomorrow' s housing starts and permits data will give us a look at the more GDP-impactful sector of housing. Starts are expected to increase a slight 0.4% or 1.240 million starts annualized versus 1.235 million in April. Permits are expected show a similar 0.4% increase over April. Existing home sales account for nearly 90% of the residential market and as such gives us the broadest view of its health. May existing home sales, due Friday, are expected to have increased 1.2% to 5.25 million annualized units versus 5.19 million in April. The average over the past year has been 5.25 million annualized so the April sales are expected to show a small sequential increase and a level that matches the yearly average.

4. June Philly Fed Business Outlook–Thursday

Recent consumer confidence readings—University of Michigan and Conference Board—have increased after the softness in the first quarter that followed extreme market volatility at year-end, but the business sector outlook has been choppier. This rollercoaster ride in sentiment is no doubt a result of the various trade talks and tariff threats that have kept business leaders unsure of future input costs, overseas market access, and supply chain issues. The June Philly Fed Business Outlook due on Thursday is a case in point. Market consensus is for the outlook to decline from a 16.6 reading in May to a 10.4 for June. The index was as high as 17 back in January but quickly posted a –4.1 the next month. The average over the past year has been 14.3 so a modest decrease in the expected outlook versus the average and another indication that the consumer will have to carry the lion-share of GDP growth for now.

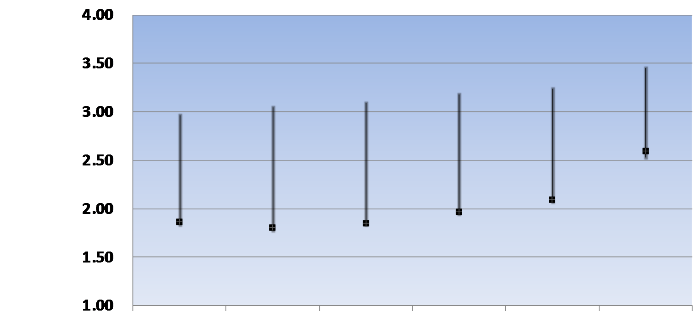
5. May Leading Index —Thursday

The Conference Board's Leading Index is a compilation of metrics that tend to lead the economy. That in itself is useful but perhaps more important these days it also has a solid record of predicting recessions. The index always falls below zero prior to a recession and earlier in the year the index was flirting with the zero-level. The index, however, will need to move below -1.0 to provide a reliable recession signal. That being said, the May number is expected to dip from April's 0.2 to 0.1. If the index matches expectations it will be a signal that the economy is expected to slow with the probability of dipping into recession increasing slightly.



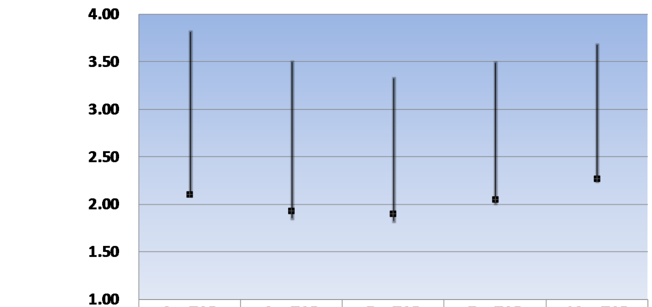
Investment Yield Ranges Over Last Year

US Treasuries



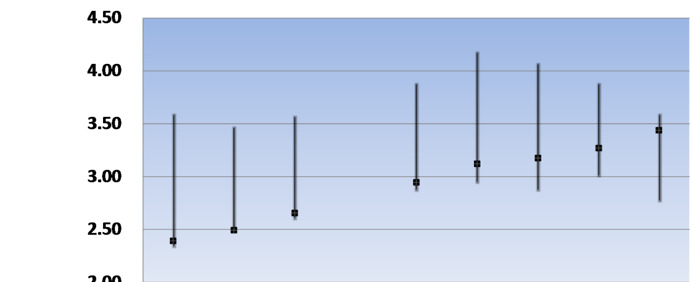
	2 year	3 year	5 year	7 year	10 year	30 year
CURRENT	1.87	1.81	1.85	1.97	2.10	2.59
52 WEEK HIGH	2.97	3.04	3.09	3.17	3.24	3.45
52 WEEK LOW	1.83	1.78	1.83	1.95	2.07	2.53

FHLB (TAPs) Agency Bullets



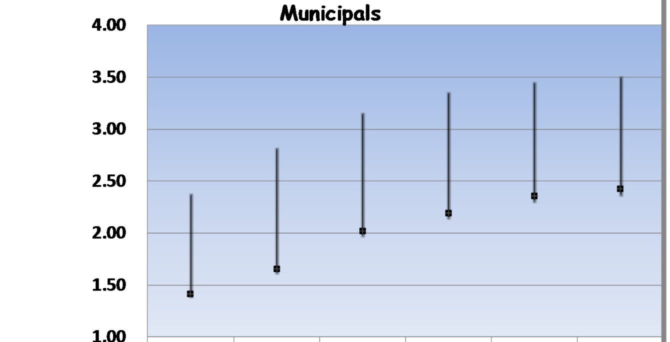
	2yr TAP	3yr TAP	5yr TAP	7yr TAP	10yr TAP
CURRENT	2.10	1.93	1.90	2.05	2.27
52 WEEK HIGH	3.82	3.50	3.32	3.49	3.68
52 WEEK LOW	2.11	1.85	1.83	2.01	2.25

Mortgage Backed Securities (FNMA)



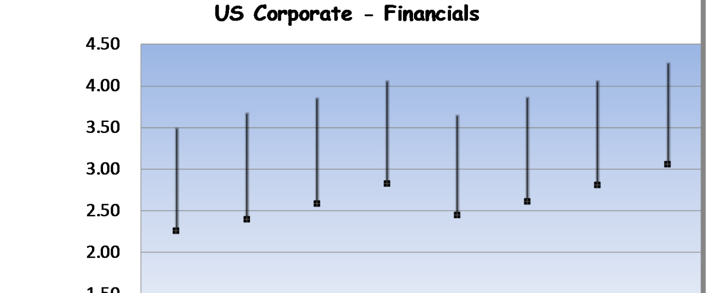
	15 yr 2.5%	15 yr 3.0%	15 yr 3.5%		30yr 3.0%	30yr 3.5%	30yr 4.0%	30yr 4.5%	30yr 5.0%
CURRENT	2.39	2.50	2.66		2.95	3.12	3.18	3.27	3.44
52 WEEK HIGH	3.58	3.46	3.56		3.87	4.17	4.06	3.87	3.58
52 WEEK LOW	2.35	2.55	2.61		2.88	2.95	2.88	3.01	2.78

Municipals



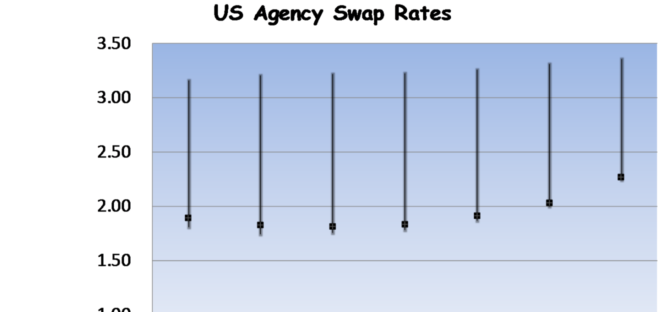
	5yr AAA	10yr AAA	15yr AAA	20yr AAA	25yr AAA	30yr AAA
CURRENT	1.41	1.65	2.02	2.19	2.36	2.43
52 WEEK HIGH	2.36	2.81	3.15	3.35	3.44	3.50
52 WEEK LOW	1.40	1.63	1.98	2.15	2.31	2.38

US Corporate - Financials



	3yr AA	5yr AA	7yr AA	10yr AA	3yr A	5yr A	7yr A	10yr A
CURRENT	2.26	2.40	2.59	2.83	2.45	2.61	2.81	3.06
52 WEEK HIGH	3.48	3.66	3.84	4.05	3.64	3.85	4.05	4.27
52 WEEK LOW	2.26	2.40	2.59	2.83	2.45	2.61	2.81	3.06

US Agency Swap Rates



	2yr	3yr	4yr	5yr	7yr	10yr	30yr
CURRENT	1.89	1.83	1.82	1.84	1.91	2.03	2.27
52 WEEK HIGH	3.16	3.20	3.21	3.22	3.25	3.31	3.36
52 WEEK LOW	1.81	1.75	1.75	1.78	1.87	2.00	2.24

*Source: Bloomberg

Thomas R. Fitzgerald
Director, Strategy & Research
400 Interstate North Parkway
Suite 1200
Atlanta, GA 30339
Tfitzgerald@centerstatebank.com