CenterState
CORRESPONDENT DIVISION

Market Update

July 1, 2019

Treasuries

Treasury Curve	Today	Week Change
3 Month	2.11%	UNCH
6 Month	2.10%	+0.05%
1 Year	1.93%	+0.01%
2 Year	1.77%	-0.02%
3 Year	1.72%	-0.01%
5 Year	1.78%	UNCH
10 Year	2.03%	-0.01%
30 Year	2.55%	-0.01%

Short-Term Rates

Fed Funds	2.50%
Prime Rate	5.50%
3 Mo LIBOR	2.32%
6 Mo LIBOR	2.20%
12 Mo LIBOR	2.18%

Swap Rates

3 Year	1.765%
5 Year	1.782%
10 Year	1.987%

Economic Calendar

Date	Statistic	For	Briefing Forecast	Market Expects	Prior
July 1	ISM Manufacturing	June	51.2	51.0	52.1
July 1	Construction Spending (MoM)	May	0.1%	0.0%	0.0%
July 3	ADP Employment Change	June	140k	140k	27k
July 3	ISM Non-Manufacturing	June	56.0	55.9	56.9
July 3	Factory Orders (MoM)	May	-0.4%	-0.6%	-0.8%
July 5	Change in Nonfarm Payrolls	June	163k	162k	75k
July 5	Unemployment Rate	June	3.6%	3.6%	3.6%
July 5	Avg. Hourly Earnings (MoM)	June	0.3%	0.3%	0.2%
July 5	Avg. Hourly Earnings (YoY)	June	3.2%	3.2%	3.1%

Top 5 Events for the Week

JULY 1 –5, 2019

1. G-20 Fallout –All Week
2. June Employment Report –Friday
3. June ISM Manufacturing –Monday
4. June ISM Non-Manufacturing –Wednesday
5. May Factory Orders –Wednesday

G-20 Fallout and Jobs Report Headline Holiday-Shortened Week

With July 4th falling on a Thursday this week will be like two weeks in one. The first will be dominated by the fallout from the weekend's Trump/Xi meeting and the implications for a trade deal, while the second will be about the June jobs report on Friday. While trade negotiations with China are back on, and new tariffs on hold, the risk-on move from the news may be short-lived as investors quickly turn their attentions to the June jobs report this Friday. The release will be the only jobs report before the July 30-31 FOMC meeting so it will definitely have some bearing on the Fed's rate decision. We say some because we think only an exceedingly strong report could upset the rate-cutting apple cart, and expectations are for a small rebound off May's weak reading.

1. G-20 Fallout —All Week

As we had guessed, the weekend G-20 meetings between President Trump and China President Xi resulted in a promise to return to the negotiating table and with a hold on adding additional tariffs. That bit of expected good news is contributing to a moderate risk-on tone this morning but we feel that reaction may be short-lived for two reasons. One, returning to the negotiating table and getting a substantive deal when there are fundamental disagreements between the two parties will be another matter altogether. Second, with July 4th falling on Thursday, the Friday jobs report will quickly become a focus for the market. That could explain why the back-up in yields this morning are minimal given the upcoming employment report and the reality that a substantive trade deal is still very much in question.

2. June Employment Report-Friday

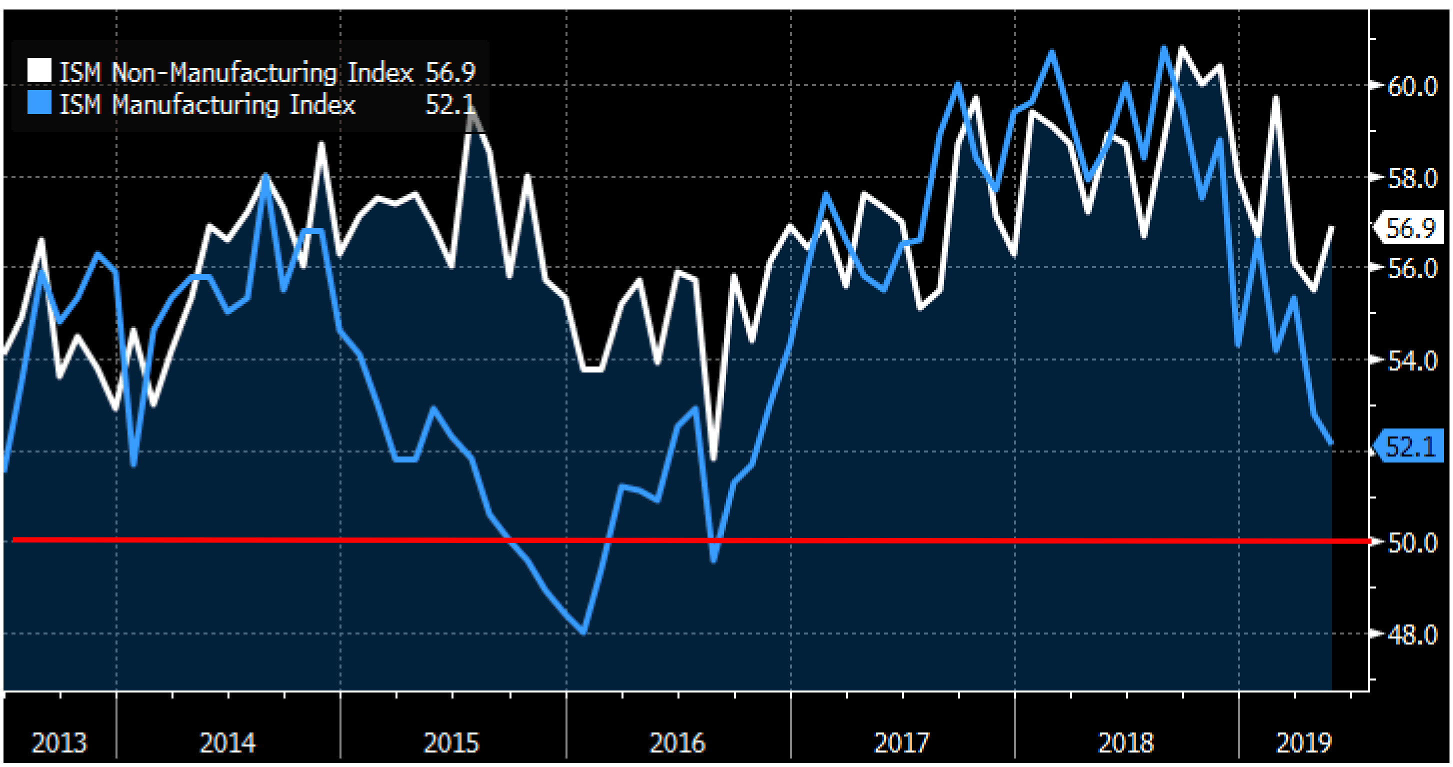
With odds of rate cut at the July 30-31 FOMC meeting at 100%, this Friday's jobs report for June could upset that apple cart only if it showed surprising strength, and even then that may not be enough to forestall the Fed. On the other hand, another weak report after May's could rekindle talk of a 50bps cut versus the more likely 25bps variety. The headline number is expected to print a 162k gain versus 75k the prior month with other metrics within the report expected to be near recent trends. The unemployment rate is expected to stay at 3.6% for a third straight month while wage gains are expected to improve to 0.3% for the month versus 0.2% in May. YoY wage gains are expected to tick higher to 3.2% after the unexpected decline to 3.1% in May.   In summary, if the report comes as expected it will show a labor market rebounding a bit from the weak May results but not enough to derail the expected rate cut at month-end.

3. June ISM Manufacturing Survey —Monday

Along with this week's jobs report the ISM Manufacturing Survey will give us another early tell on June activity and the report is out later this morning. The forecast for the June ISM is for a soft print of 51.0 versus 52.1 in May and well below the 12-month average of 56.7. The 50-level represents the dividing line between an expanding and contracting sector. The continued moderation in manufacturing is attributable to the inventory overbuild that was noted in the last two GDP reports and to slowing global growth prospects. In summary, the ISM's weakening trend is expected to continue in June with results narrowly avoiding contraction. The Fed is no doubt watching.

4. June ISM Non-Manufacturing Survey–Wednesday

The ISM Manufacturing Survey today will be followed on Wednesday by the June ISM Non-Manufacturing, or services sector that constitutes nearly 90% of the economy. That survey is expected to show more strength than the manufacturing sector with a 55.9 print forecast versus 56.9 in May. The survey has averaged 58.2 over the past year so a slight sequential and yearly average decline but still well above the 50 dividing line indicating more health in the services sector versus manufacturing.

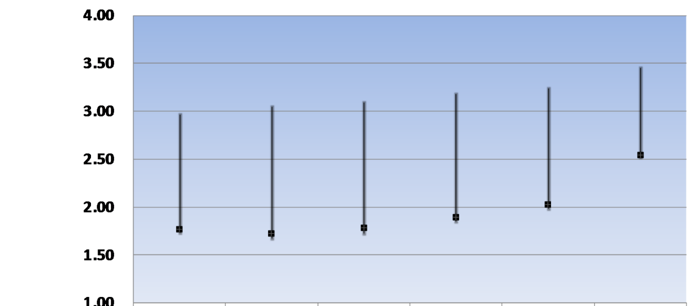


5. May Factory Orders —Wednesday

While not as timely as the ISM Manufacturing Survey, the May Factory Orders report on Wednesday will give us another look at the manufacturing sector and it's expected to show slowing as the aforementioned headwinds of inventory runoff, softening global demand, and tariff effects weigh on the factory and manufacturing sector. Orders for May are expected to be down –0.6% versus –0.8% in April. Thus, back-to-back monthly declines are expected to signal continued weakness in the sector and will no doubt factor into the Fed's rate cutting calculus.

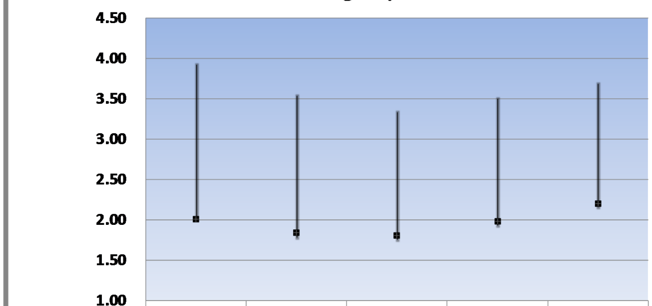
Investment Yield Ranges Over Last Year

US Treasuries



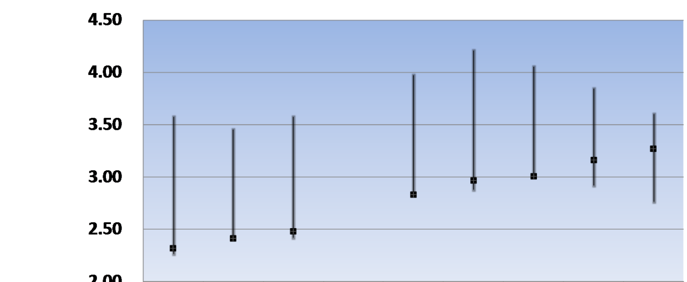
	2 year	3 year	5 year	7 year	10 year	30 year
▪ CURRENT	1.77	1.73	1.78	1.89	2.02	2.54
52 WEEK HIGH	2.97	3.04	3.09	3.17	3.24	3.45
52 WEEK LOW	1.73	1.68	1.73	1.85	1.99	2.52

FHLB (TAPs) Agency Bullets



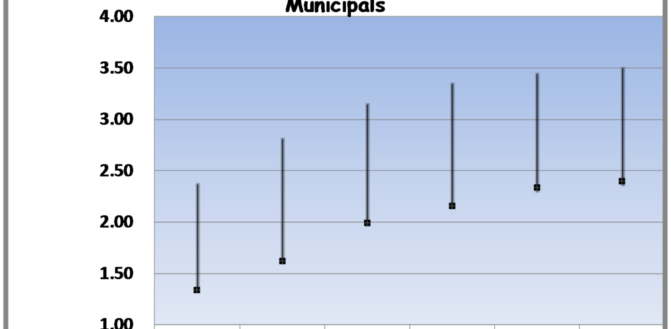
	2yr TAP	3yr TAP	5yr TAP	7yr TAP	10yr TAP
▪ CURRENT	2.01	1.84	1.81	1.97	2.20
52 WEEK HIGH	3.92	3.54	3.33	3.50	3.68
52 WEEK LOW	2.02	1.78	1.76	1.93	2.16

Mortgage Backed Securities (FNMA)



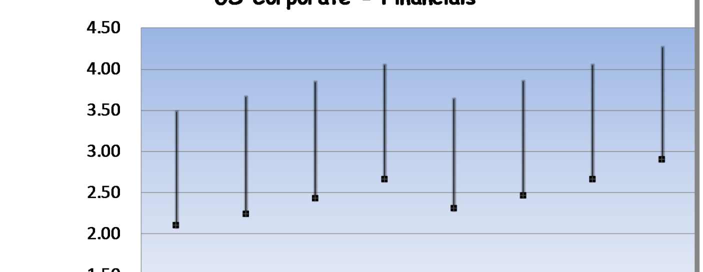
	15 yr 2.5%	15 yr 3.0%	15 yr 3.5%		30yr 3.0%	30yr 3.5%	30yr 4.0%	30yr 4.5%	30yr 5.0%
▪ CURRENT	2.32	2.41	2.48		2.83	2.96	3.00	3.16	3.27
52 WEEK HIGH	3.57	3.45	3.57		3.97	4.21	4.05	3.84	3.60
52 WEEK LOW	2.27	2.51	2.42		2.83	2.88	3.02	2.92	2.76

Municipals



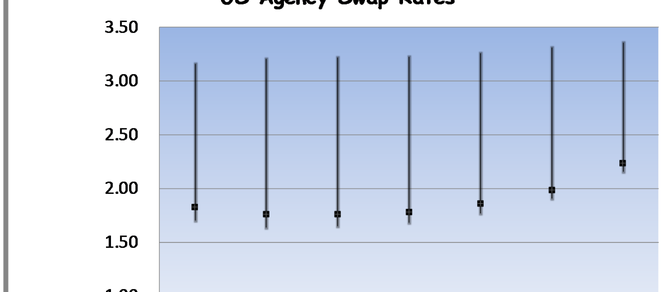
	5yr AAA	10yr AAA	15yr AAA	20yr AAA	25yr AAA	30yr AAA
▪ CURRENT	1.34	1.62	1.99	2.16	2.34	2.40
52 WEEK HIGH	2.36	2.81	3.15	3.35	3.44	3.50
52 WEEK LOW	1.34	1.62	1.98	2.15	2.31	2.38

US Corporate - Financials



	3yr AA	5yr AA	7yr AA	10yr AA	3yr A	5yr A	7yr A	10yr A
▪ CURRENT	2.11	2.25	2.43	2.67	2.32	2.47	2.67	2.91
52 WEEK HIGH	3.48	3.66	3.84	4.05	3.64	3.85	4.05	4.27
52 WEEK LOW	2.09	2.24	2.42	2.66	2.30	2.46	2.66	2.91

US Agency Swap Rates



	2yr	3yr	4yr	5yr	7yr	10yr	30yr
▪ CURRENT	1.83	1.77	1.76	1.78	1.86	1.99	2.24
52 WEEK HIGH	3.16	3.20	3.21	3.22	3.25	3.31	3.36
52 WEEK LOW	1.70	1.64	1.65	1.68	1.77	1.90	2.15

*Source: Bloomberg

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