CenterState
CORRESPONDENT DIVISION

Market Update

October 21, 2019

Treasuries

Treasury Curve	Today	Week Change
3 Month	1.67%	+0.02%
6 Month	1.63%	-0.03%
1 Year	1.57%	-0.03%
2 Year	1.59%	+0.06%
3 Year	1.58%	+0.05%
5 Year	1.59%	+0.07%
10 Year	1.78%	+0.09%
30 Year	2.28%	+0.11%

Short-Term Rates

Fed Funds	2.00%
Prime Rate	5.00%
3 Mo LIBOR	1.95%
6 Mo LIBOR	1.95%
12 Mo LIBOR	1.99%

Swap Rates

3 Year	1.597%
5 Year	1.590%
10 Year	1.725%

Economic Calendar

Date	Statistic	For	Briefing Forecast	Market Expects	Prior
Oct 22	Richmond Fed Manufact. Index	Oct	-7	-7	-9
Oct 22	Existing Home Sales	Sep	5.46m	5.45m	5.49m
Oct 22	Existing Home Sales (MoM)	Sep	-0.5%	-0.7%	1.3%
Oct 24	Durable Goods Orders	Sep P	-0.6%	-0.7%	0.2%
Oct 24	Durable Goods Ex-Transports.	Sep P	-0.2%	-0.3%	0.5%
Oct 24	New Home Sales	Sep	705k	701k	713k
Oct 24	New Home Sales (MoM)	Sep	-1.2%	-1.6%	7.1%
Oct 25	U. of Mich. Sentiment	Oct F	96.0	96.0	96.0
Oct 25	U. of Mich. 5-10yr Inflation	Oct F	2.2%	2.2%	2.2%

Top 5 Events for the Week

OCT. 21-25, 2019

1. Trade & Brexit Developments –All Week
2. September Existing Home Sales –Tuesday
3. September Durable Goods Orders–Thursday
4. September New Home Sales–Thursday
5. October U. of Michigan Sentiment–Friday

Brexit Fallout

While the weekend Brexit vote was delayed—stop me if you've heard that before—the likelihood of final approval increased and that has Treasuries in a spot of bother. The fact the U.K. will likely avoid a Hard Brexit (i.e., falling out of the E.U. without a divorce agreement) does remove the worst-case scenario and reduces some uncertainty and that is worth some back-up in Treasuries but it's also not a catalyst for reviving economic momentum. Ongoing developments in the U.S./China trade talks will also drive market direction but that is a slower developing story. Neither party seems to have the urgency in getting to yes. The recent data from China showing industrial production perking up may allow them to proceed on a cautious course while Trump continues to believe a hardball approach is what his base loves best despite wanting to squelch impeachment-driven headlines. Away from the geo-political stuff existing and new home sales for September will lead the economic releases with both expected to be solid but off from the pace set in August. The Fed has gone into their quiet period before next week's FOMC meeting but the lack of pushback from top officials in recent speeches implies they are onboard with the market's rate cutting expectations.

1. Trade and Brexit Deal Developments—All Week

While the weekend Brexit vote was delayed, the likelihood of final approval increased and that has Treasuries on the back foot as the new week begins, but the moves are about what we expected, that is somewhat limited. The fact the U.K. will avoid a Hard Brexit (i.e., falling out of the E.U. without a divorce agreement) removes the worst-case scenario and reduces some uncertainty overhanging global markets and that is worth some back-up in Treasury yields, but it's also not a catalyst for reviving economic momentum. Ongoing developments in the U.S./China trade talks will also drive market direction but that is a slower developing story. Neither party seems to have the urgency in getting to yes. The recent data from China showing industrial production perking up may keep them cautious while Trump continues to believe a hardball approach is what his base loves best despite wanting to squelch impeachment-driven headlines. Finally, the Fed has gone into their quiet period before the FOMC meeting next week but the lack of pushback from top officials in recent speeches implies they are onboard with the market's rate cutting expectations.

2. September Existing Home Sales –Tuesday

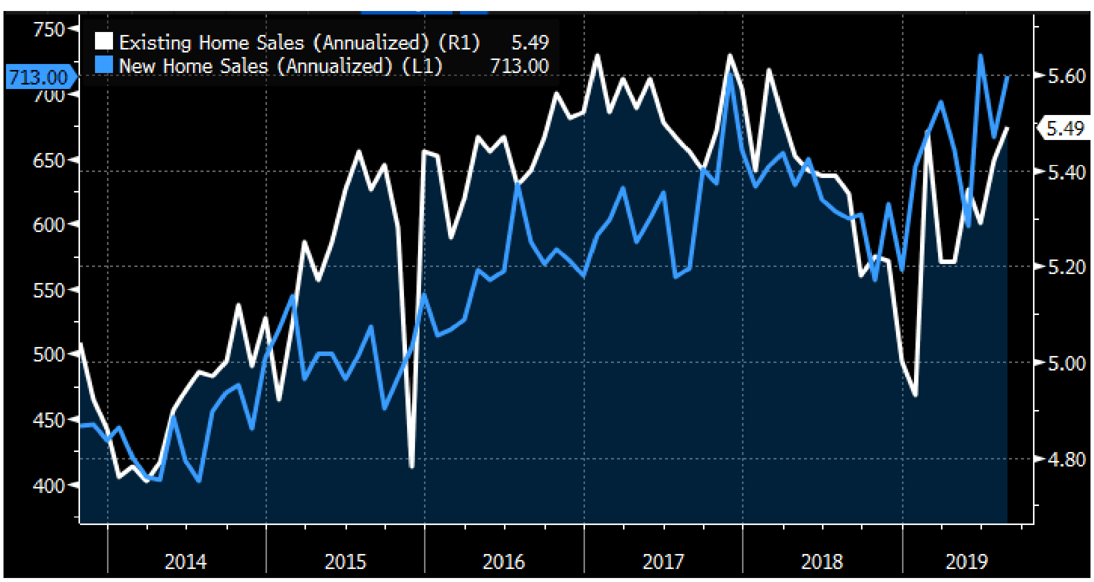
The bounce in August sales activity might make it tough for September to post sequential gains, but the drop in mortgage rates in August should continue to underpin a solid level of activity in September. Existing home sales account for about 90% of housing activity and tomorrow's existing sales number is expected to decrease –0.7% to 5.45 million units annualized. The average over the past year has been 5.25 million so a nice gain over the yearly average is expected despite a small sequential decline.

3. September Preliminary Durable Goods Orders—Thursday

While the consumer has held up the economy this year one sector that hasn't done well has been manufacturing which has been weak under the impact of tariffs and global slowing. Durable goods are one component in the manufacturing sector so the preliminary orders for September will be watched for carefully. Overall orders are expected to decrease –0.7% versus a 0.2% increase in August. Orders ex-transportation are expected down -0.3% versus an increase of 0.5% in August. Shipments of capital goods non-defense ex-air (biz investment proxy) are expected down -0.3% versus 0.3% in August. Thus, the slowing in the sector looks like it will resume its decline after an uptick in August.

4. September New Home Sales—Thursday

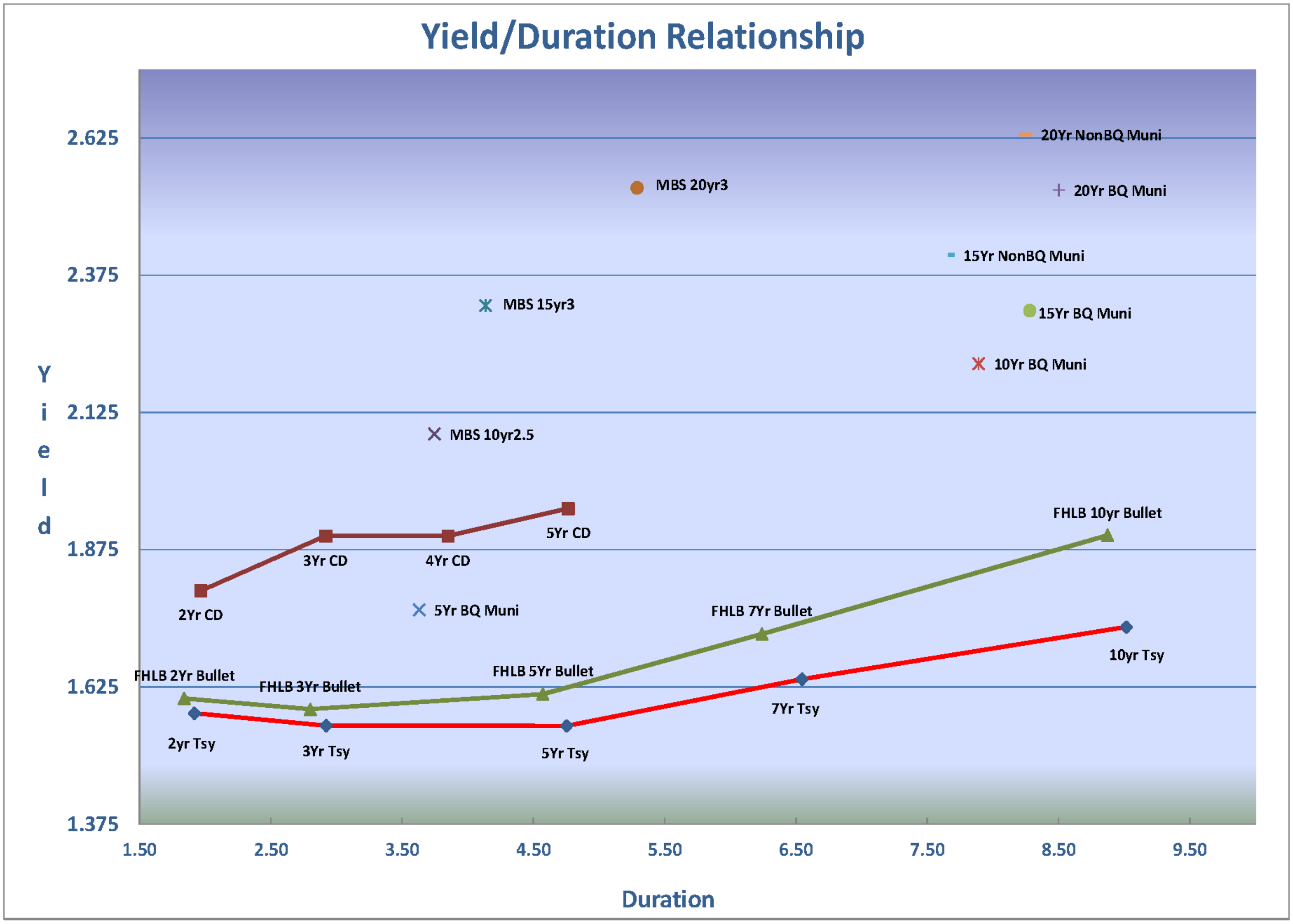
New home sales are based on contract signings so they are a timelier look at the market compared to closings on existing sales; however, new homes sales represent just 10% of the market. In any event, new home sales for September are expected to have decreased –1.6% to 701 thousand annualized versus August's gain of 7.1% or 713 thousand. The average over the past year has been 642 thousand annualized so a sequential decline is expected but better than the annual average and that aligns with the bulk of recent housing numbers.



5. October University of Michigan Consumer Sentiment –Friday

With consumer consumption two-thirds of the economy, readings on consumer confidence are an early tell on future spending. If confidence readings start to trend lower it's a warning that the consumer may be close to pulling back. The final October read from the University of Michigan on sentiment is expected to be 96.0 same as the preliminary reading. The high print was a 101.4 in March of 2018 when tax cut euphoria was running high. The October final print, if it comes as expected, would represent back-to-back months of solid confidence readings after a steep drop in August. The average over the past year has been 96.0. Inflation estimates are expected at 2.5% for the 1yr period and 2.2% for the 5-10yr horizon. Those are very docile inflation reads and certainly won't stop a planned rate cut.

Yield/Duration Matrix



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