CenterState
CORRESPONDENT DIVISION

Market Update

June 3, 2019

Treasuries

Treasury Curve	Today	Week Change
3 Month	2.33%	-0.01%
6 Month	2.29%	-0.07%
1 Year	2.15%	-0.16%
2 Year	1.89%	-0.25%
3 Year	1.84%	-0.24%
5 Year	1.89%	-0.20%
10 Year	2.11%	-0.18%
30 Year	2.56%	-0.16%

Short-Term Rates

Fed Funds	2.50%
Prime Rate	5.50%
3 Mo LIBOR	2.50%
6 Mo LIBOR	2.52%
12 Mo LIBOR	2.51%

Swap Rates

3 Year	1.865%
5 Year	1.891%
10 Year	2.072%

Economic Calendar

Date	Statistic	For	Briefing Forecast	Market Expects	Prior
June 3	ISM Manufacturing	May	53.0	53.0	52.8
June 4	Factory Orders	Apr	-1.0%	-1.0%	1.9%
June 5	ISM Non-Manufacturing	May	55.5	55.4	55.5
June 6	Trade Balance	Apr	-$50.7b	-$50.6b	-$50.0b
June 7	Change in Nonfarm Payrolls	May	185k	183k	263k
June 7	Unemployment Rate	May	3.6%	3.6%	3.6%
June 7	Avg. Hourly Earnings (MoM)	May	0.3%	0.3%	0.2%
June 7	Avg. Hourly Earnings (YoY)	May	3.2%	3.2%	3.2%
June 7	Labor Force Participation Rate	May	62.8	62.8%	62.8%

Top 5 Events for the Week

JUNE 3 –7, 2019

1. Geo-Political Developments –All Week
2. May Employment Report –Friday
3. Fed Speak–All Week
4. May ISM Manufacturing Survey –Monday
5. April Trade Balance –Thursday

Geo-Political Headlines Likely to Dictate Trading

In the week ahead, we get to see the interplay between the building trade war, first-tier economic releases—like the May Employment Report and ISM Manufacturing— and a plethora of Fed speakers. The Treasury market has taken the measure of the latest trade developments and found them wanting, and as the parties harden their positions a quick resolution seems further away. With nearly every FOMC member speaking this week, including Powell tomorrow, the market will get the Fed's temperature as it relates to rate policy in light of the slowing global growth outlook and the increasing trade war friction. With Treasuries plumbing new lows on a daily basis it's safe to assume the market is looking for some softening in the Fed's patient pause approach.

1. Geo-Political Developments —All Week

Congress returns to Washington this week amidst the latest trade brouhaha, and following Robert Mueller's brief appearance last week expect the back and forth over subpoenas and testimony, etc., to ramp back up. Meanwhile, President Trump is in London for a 3-day visit amidst the U.K. government's search for a new prime minister. He's planning to meet with Nigel Farage and Boris Johnson, both candidates for the position, and both mercurial personalities in their own right. There is talk too that the administration has threatened to stop intelligence-sharing with the U.K. if they don't refrain from using Huawei parts in their planned 5G upgrades. It's easy to expect fireworks emanating from the visit which means the geopolitical angle should continue to provide a positive back drop for Treasuries, and yields are indeed moving lower this morning.

2. May Employment Report —Friday

This Friday's May jobs report is likely to show a bit of a give back after the surprising strength in April's jobs growth number. The headline number is expected to print a 185k gain versus 263k the prior month but other metrics within the report are calling for a solid, if unspectacular, read on the labor market. The unemployment rate is expected to stay at 3.6% for a second straight month while wage gains are expected to improve to 0.3% for the month versus 0.2% in April. YoY wage gains are expected to remain at 3.2% for a third straight month after peaking at 3.4% in February. In summary, if the report comes as expected it will show a labor market that, despite a dip in the headline job growth number, maintained steady momentum in May.

3. Fed Speak —All Week

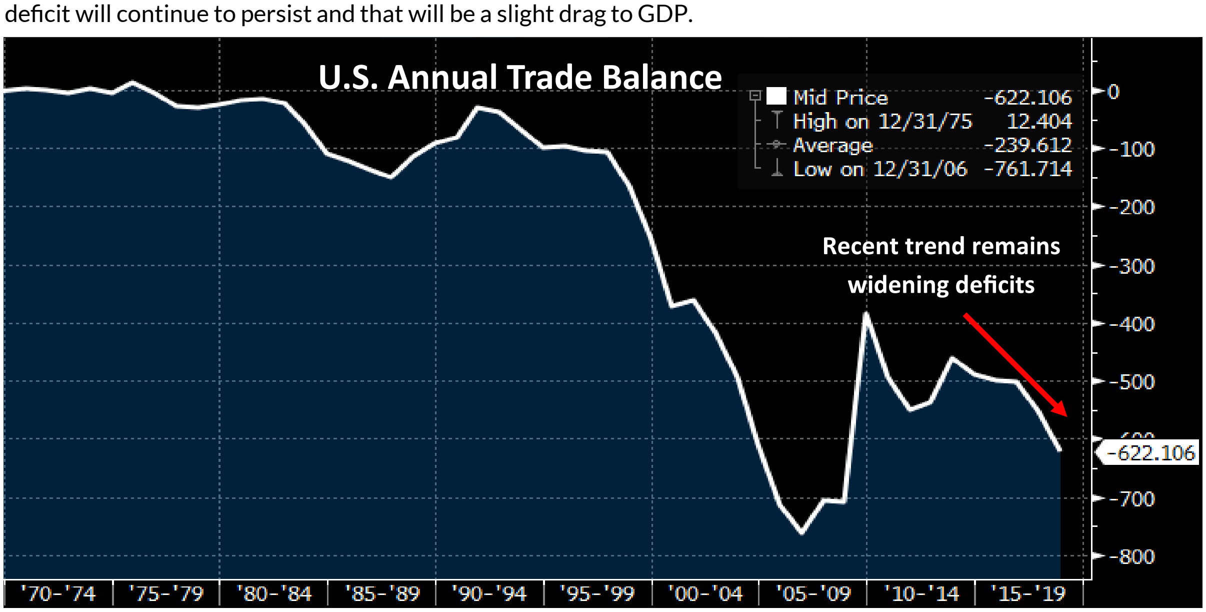
After all the trade-related developments last week, and continued slowing in global growth, most of the FOMC members will have a chance to speak this week with Chair Powell talking tomorrow on policy strategy. With Treasury note yields sporting 1-handles out to five-years the market is expecting some softening in the patient pause line the Fed has struck since December. While domestic economic releases aren't exhibiting the slowdown that other global outposts are experiencing, momentum in many of the latest readings seem to have plateaued. And with inflation readings remaining stubbornly below the 2% target, the Fed seems to have room to relent on a rate cut in the near future. The question is will they use this week to start prepping the market for that outcome, or will they continue to stand firm in their patient pause strategy? If it's the former, expect a bit of yield back-up in the longer end (i..e, more steepness in the curve), while the latter scenario will likely press the longer-end to fresh low yields as the market interprets that as a policy error.

4. May ISM Manufacturing Survey –Monday

Along with this week's jobs report the ISM Manufacturing Survey will give us another early tell on May activity. The forecast for the May ISM is for a print of 53.0 versus 52.8 in April but well below the 12-month average of 57.2. The continued moderation in manufacturing is attributable to the inventory overbuild that was noted in the first quarter GDP and to slowing in global growth prospects. In summary, the ISM report is expected to show continued expansion but off recent trends.

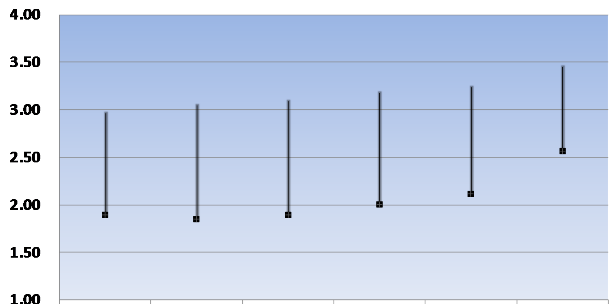
5. April Trade Balance —Thursday

With trade war talk all the rage, this Thursday we'll get the April Trade Balance numbers and they're not likely to show much improvement in the deficit. The April deficit (of goods and services) is expected to widen to -$50.6 billion versus -$50.0 billion the prior month. The average over the past year has been -$51.4 billion so a near on average deficit is forecast. The fairly stable deficit is a reflection of the strong dollar and weaker overseas economies. Despite tariffs and threats of tariffs, changes to the trade balance continue to be driven more by basic economic fundamentals: namely dollar strength that makes imports cheaper and exports more expensive and the differences in economic activity. With our economy outperforming almost all other developed markets, and with it two-thirds consumption-based, the deficit will continue to persist and that will be a slight drag to GDP.



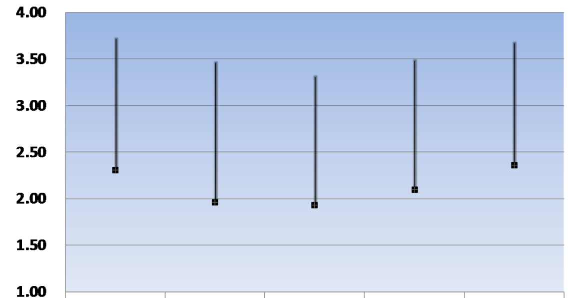
Investment Yield Ranges Over Last Year

US Treasuries



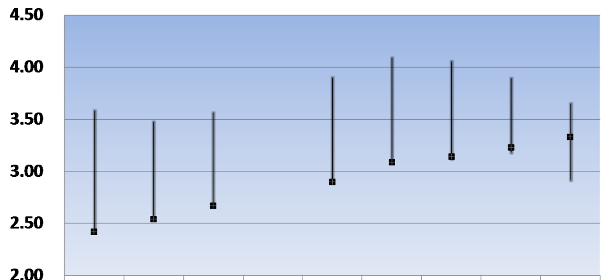
	2 year	3 year	5 year	7 year	10 year	30 year
CURRENT	1.90	1.85	1.90	2.01	2.12	2.56
52 WEEK HIGH	2.97	3.04	3.09	3.17	3.24	3.45
52 WEEK LOW	1.89	1.85	1.90	2.01	2.12	2.56

FHLB (TAPs) Agency Bullets



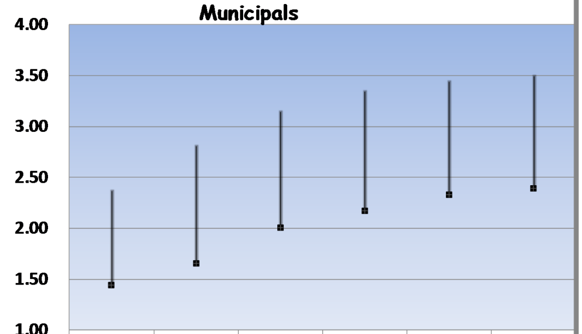
	2yr TAP	3yr TAP	5yr TAP	7yr TAP	10yr TAP
CURRENT	2.30	1.96	1.93	2.10	2.36
52 WEEK HIGH	3.72	3.46	3.31	3.48	3.67
52 WEEK LOW	2.32	1.96	1.92	2.10	2.36

Mortgage Backed Securities (FNMA)



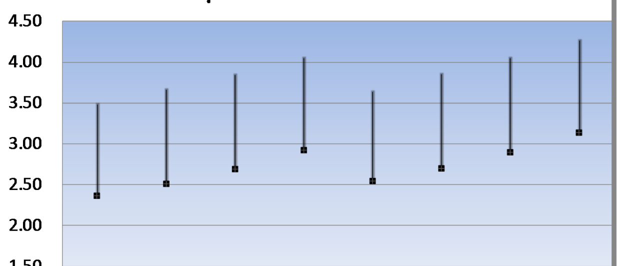
	15 yr 2.5%	15 yr 3.0%	15 yr 3.5%		30yr 3.0%	30yr 3.5%	30yr 4.0%	30yr 4.5%	30yr 5.0%
CURRENT	2.42	2.54	2.67		2.90	3.08	3.14	3.23	3.33
52 WEEK HIGH	3.58	3.47	3.56		3.90	4.09	4.05	3.89	3.65
52 WEEK LOW	2.57	2.73	2.78		3.01	3.17	3.12	3.18	2.92

Municipals



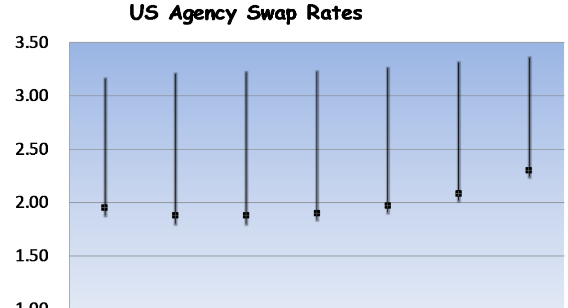
	5yr AAA	10yr AAA	15yr AAA	20yr AAA	25yr AAA	30yr AAA
CURRENT	1.44	1.66	2.01	2.17	2.33	2.40
52 WEEK HIGH	2.36	2.81	3.15	3.35	3.44	3.50
52 WEEK LOW	1.44	1.66	2.01	2.17	2.33	2.39

US Corporate - Financials



	3yr AA	5yr AA	7yr AA	10yr AA	3yr A	5yr A	7yr A	10yr A
CURRENT	2.36	2.51	2.69	2.92	2.54	2.70	2.90	3.14
52 WEEK HIGH	3.48	3.66	3.84	4.05	3.64	3.85	4.05	4.27
52 WEEK LOW	2.36	2.51	2.69	2.92	2.54	2.70	2.90	3.14

US Agency Swap Rates



	2yr	3yr	4yr	5yr	7yr	10yr	30yr
CURRENT	1.95	1.88	1.88	1.90	1.97	2.08	2.30
52 WEEK HIGH	3.16	3.20	3.21	3.22	3.25	3.31	3.36
52 WEEK LOW	1.88	1.81	1.81	1.84	1.91	2.02	2.24

*Source: Bloomberg

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