

# Market Update

September 9, 2019

## Treasuries

Treasury Curve	Today	Week Change
3 Month	1.96%	-0.01%
6 Month	1.87%	UNCH
1 Year	1.75%	UNCH
2 Year	1.56%	+0.06%
3 Year	1.49%	+0.07%
5 Year	1.45%	+0.07%
10 Year	1.59%	+0.10%
30 Year	2.07%	+0.11%

## Short-Term Rates

Fed Funds	2.25%
Prime Rate	5.25%
3 Mo LIBOR	2.13%
6 Mo LIBOR	2.03%
12 Mo LIBOR	1.95%
<b>Swap Rates</b>	
3 Year	1.448%
5 Year	1.389%
10 Year	1.482%

## Economic Calendar

Date	Statistic	For	Briefing Forecast	Market Expects	Prior
Sep 10	NFIB Small Biz Optimism	Aug	103.5	103.5	104.7
Sep 11	JOLTs Job Openings	Jul	7.311m	7.311m	7.348m
Sep 11	PPI (YoY)	Aug	1.8%	1.7%	1.7%
Sep 11	Core PPI (YoY)	Aug	2.1%	2.2%	2.1%
Sep 12	CPI (YoY)	Aug	1.8%	1.8%	1.8%
Sep 12	Core CPI (YoY)	Aug	2.3%	2.3%	2.2%
Sep 13	Advance Retail Sales (MoM)	Aug	0.2%	0.2%	0.7%
Sep 13	Retail Sales Control Group (MoM)	Aug	0.3%	0.3%	1.0%
Sep 13	U. of Mich Consumer Sentiment	Sep P	90.4	90.5	89.8



## Top 5 Events for the Week

SEP. 9-13, 2019

1. Trade-Related News –All Week
2. August Inflation Readings–Wed./Thurs
3. August Retail Sales–Friday
4. September U. of Mich. Sentiment –Friday
5. JOLTs Job Openings –Wednesday

### August Inflation and Retail Sales Headline Week

This week will be quiet from a Fed perspective as they enter the pre-meeting blackout period, so trading direction will be dictated by three things: (1) the ever-present trade and geopolitical headlines; (2) August inflation and retail sales numbers; and, (3) fallout from the lackluster jobs report. The employment report was weak enough to green-light the expected 25bps rate cut, and because of that the inflation and retail sales numbers this week probably don't carry as much weight unless they come in exceedingly weak in which case talk of a 50bps ease will start to surface again. We expect, however, that the consumer was carrying enough confidence and spending momentum into August that the retail sales numbers will be decent-to-good and inflation likely docile enough to keep the Fed in rate-cutting mode.

### 1. Trade and Geopolitical Headlines—All Week

Trade-related headlines and White House comments have been more conciliatory of late and that has led to a risk-on tone in equities with some pressure on Treasuries. Given the repeated nature of this kabuki trade dance, however, Treasury investors are treating the positive headlines with more skepticism and that has limited the yield pullbacks. Equity traders, meanwhile, act more like Charlie Brown attempting to kick the football from Lucy. Their undying belief that a trade deal is maybe, possibly in the offing this time remains. Hope does spring eternal but we think the Treasury market's more skeptical view is the better approach. Meanwhile, the Fed goes into its quiet period before the FOMC meeting next week so the news flow will be driven by the trade and geopolitical headlines. Chair Powell did speak last Friday and continued to express cautious optimism on the domestic economy but with ongoing concern over global growth headwinds. There wasn't much new in his outlook which is what we expected given the looming FOMC meeting.

### 2. August CPI Inflation Report –Thursday

While the lackluster August jobs report most likely sealed the deal on a rate cut at the FOMC meeting next week, the CPI report is the leading economic release this week. If it comes in weaker-than-expected it might prompt more talk of a 50bps rate cut but a stronger-than-expected report probably doesn't stymie a 25 bps rate cut for September. Expectations are for overall CPI to be up 0.1% versus a 0.3% increase in July. The core rate (ex-food and energy) is expected to increase 0.2% after July's 0.3% increase. On a year-over-year basis, CPI is expected to be unchanged at 1.8% while core CPI YoY is expected to increase one-tenth to 2.3% from 2.2%. As for the Fed's reaction function, we think a stronger-than-expected inflation read doesn't stymie a rate cut in September but a weaker report will increase discussions for a 50bps cut.

### 3. August Advance Retail Sales—Friday

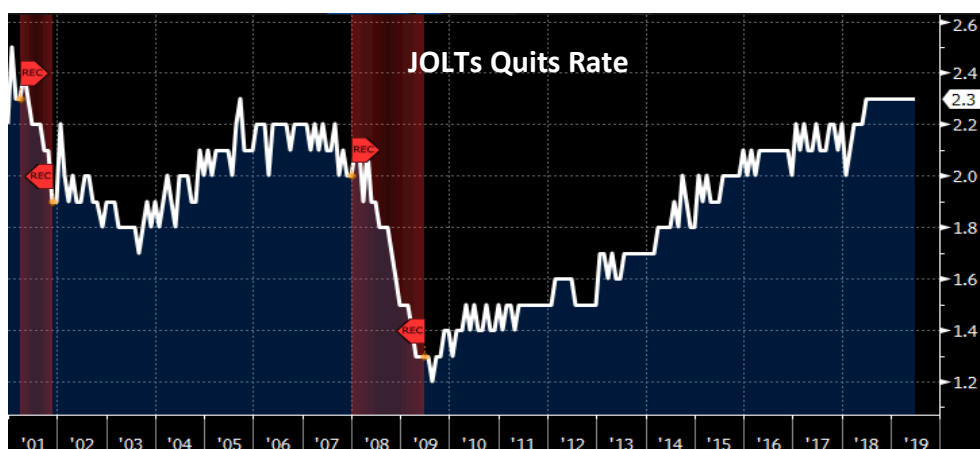
It's become clear in the last few months that the domestic economy is being carried by the consumer and third quarter results will rise and fall on consumer consumption. While the consumer was unfazed this summer with all the trade and geopolitical handwringing, a softening in job prospects and/or increased market volatility may slow the pace of spending, and with business investment moribund and net exports dragging on GDP a consumer pulling back on spending will be felt in a weaker GDP. As for August, retail sales are expected to increase 0.2% versus 0.7% in July and sales ex-autos & gas are expected to be up 0.3% versus 0.9% the prior month. The Retail Sales Control Group (a direct GDP input) is expected to increase 0.3% versus 1.0% in July. Thus, expectations are for a decent report but certainly off the strength in June and July and that is why third quarter GDP is expected to be slightly under 2.0% as a result.

### 4. September Univ. of Michigan 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 definitely a warning sign that the consumer may be close to pulling back. The preliminary September read from the University of Michigan on sentiment is expected to be 90.5 versus 89.8 in August. The high print was a 101.4 in March of 2018 when tax cut euphoria was running high. The September print, if it comes as expected, would mostly mirror the August result which represented some softening in confidence but not to an alarming degree. Inflation estimates are expected at 2.7% for the 1yr period and 2.6% for the 5-10yr horizon. The 5-10yr horizon average over the past year has been 2.5% and the Fed will want to see those expectations not drift one way or the other by any great extent.

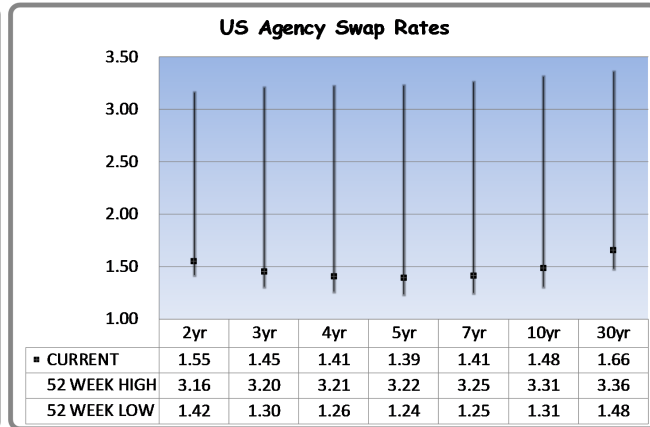
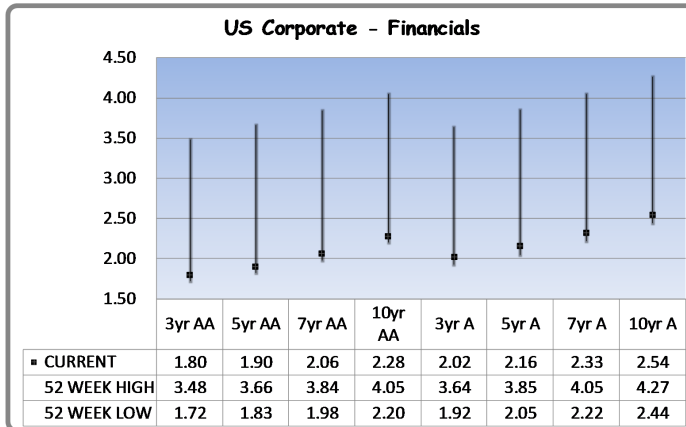
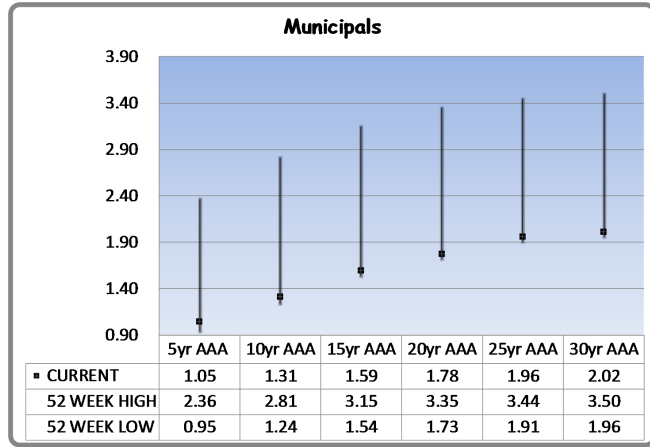
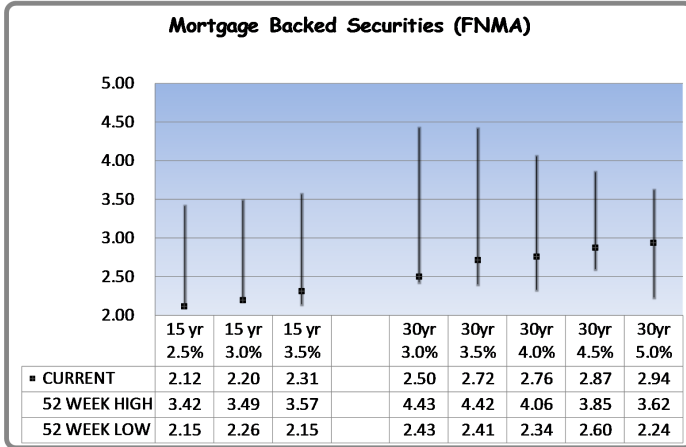
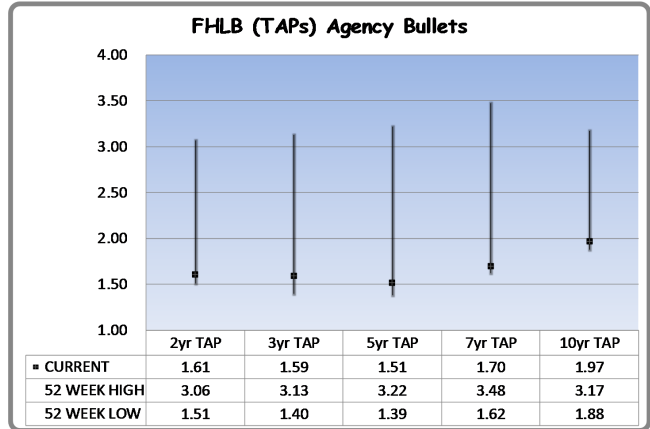
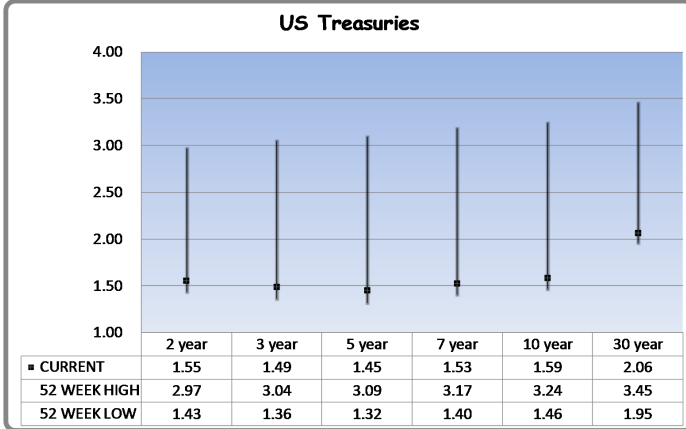
### 5. July JOLTs Job Openings—Wednesday

After last Friday's somewhat disappointing August jobs report, Wednesday's JOLTs report will provide a little more information on the labor market. While the July report is a bit dated, it does have some additional indicators that are followed by the Fed. One of the primary indicators we look at is the Quits Rate which measures the number of voluntary job quitters as a percent of total employed. It provides a measure on worker confidence as those quitting jobs voluntarily feel comfortable in finding other employment. The Quits Rate seems to have plateaued at 2.3% as it's sat there for the past 13 months which is a high reading for this cycle.





# Investment Yield Ranges Over Last Year



\*Source: Bloomberg

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