CenterState
CORRESPONDENT DIVISION

Market Update

September 10, 2018

Treasuries

Treasury Curve	Today	Week Change
3 Month	2.13%	+0.02%
6 Month	2.31%	+0.04%
1 Year	2.51%	+0.05%
2 Year	2.71%	+0.08%
3 Year	2.78%	+0.08%
5 Year	2.82%	+0.07%
10 Year	2.94%	+0.06%
30 Year	3.10%	+0.05%

Short-Term Rates

Fed Funds	2.00%
Prime Rate	5.00%
3 Mo LIBOR	2.33%
6 Mo LIBOR	2.54%
12 Mo LIBOR	2.85%

Swap Rates

3 Year	2.947%
5 Year	2.958%
10 Year	3.005%

Economic Calendar

Date	Statistic	For	Briefing Forecast	Market Expects	Prior
Sept 11	NFIB Small Business Optimism	Aug	108.1	108.1	107.9
Sept 11	JOLTS Job Openings	Jul	6.675m	6.675m	6.662m
Sept 12	PPI (YoY)	Aug	3.2%	3.2%	3.3%
Sept 12	Core PPI (YoY)	Aug	2.7%	2.7%	2.7%
Sept 13	CPI (YoY)	Aug	2.8%	2.8%	2.9%
Sept 13	Core CPI (YoY)	Aug	2.4%	2.4%	2.4%
Sept 14	Advance Retail Sales (MoM)	Aug	0.5%	0.4%	0.5%
Sept 14	Industrial Production (MoM)	Aug	0.3%	0.3%	0.1%
Sept 14	U. of Michigan Sentiment	Sep P	96.8	96.8	96.2

Top 5 Events for the Week

SEPT. 4-7, 2018

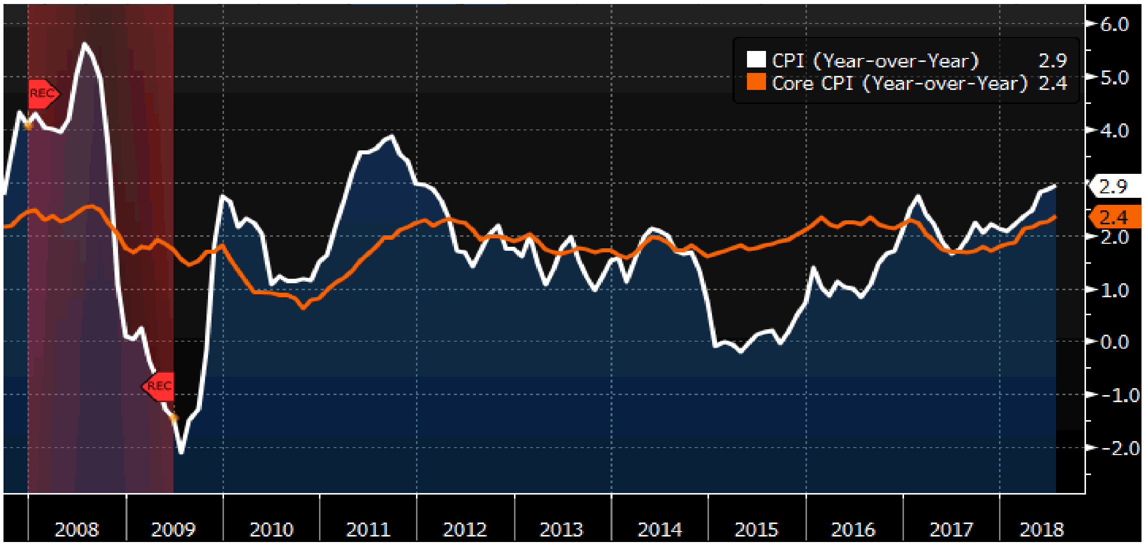
1. August Inflation Reports— Wed./Thurs.
2. Trade/Tariff Tensions & Emerging Markets—All Week
3. August Retail Sales —Thursday
4. August Industrial Production —Thursday
5. U. of Michigan September Sentiment— Friday

Inflation and Retail Sales for August

This week will be all about whether higher wage gains from the August jobs report are filtering into the inflation numbers with August CPI due on Thursday. If the wage gains don't goose the inflation numbers—and it could be too early to see a flow-through—the add-on from tariffs and higher production costs may offer those bearish the bond market some long-awaited evidence of the reflation trade. Also on Thursday we'll get a look at August retail sales and industrial production with strong showings similar to July expected in both reports. Overlaying the August economic releases will be the ongoing trade and tariff negotiations/discussions and emerging market developments. All are capable of moving markets depending on the nature of the headlines.

1. **August Inflation Reports —Wednesday/Thursday**

This week the big item apart from trade and tariff talk headlines will be August inflation readings. The first will be wholesale price increases in the form of PPI due Wednesday while the more important consumer inflation series will be released Thursday. Expectations are for July to be up 0.3% versus 0.2% in July. The core rate (ex-food and energy) is expected to increase 0.2%, matching the July gain. On a year-over-year basis, CPI is forecast to tick down to 2.8% from July's 2.9% while core CPI YoY is expected to stay at 2.4% for the second straight month. While the YoY measures are above the Fed's stated 2% benchmark the Fed's preferred inflation measure, core PCE, remains slightly under 2% at 1.98%. That being said, the trend in PCE is towards 2%, and with the solid wage gains from the August jobs report the Fed will be even more secure in the belief that inflation will move to and above their 2% benchmark. Thus, unless these inflation reports disappoint they will support a rate hike in September and more than likely one in December as well.



2. **Trade/Tariff Tensions and Emerging Market Issues —All Week**

Emerging markets and trade /tariff developments will continue to loom over most of the economic releases this week, especially with an additional $267 billion in tariffs on Chinese goods announced after the $200 billion levied the week prior. The latest salvo will no doubt prompt some type of tit-for-tat response from the Chinese which should aid the bid for Treasuries as the trade war angst grows. In addition, the emerging market currency crisis doesn't look to go away, especially with the likelihood of the Fed hiking another 50bps this year. That should keep the pressure on foreign currencies, and feed the crisis. As we mentioned last week, this all seems to infer a positive backdrop to long-term Treasuries and our curve flattening call, despite the solid string of domestic economic results.

3. **August Retail Sales—Thursday**

The August Retail Sales Report is due Thursday and expectations are for most key metrics to match July's impressive readings with the all-important Control Group reading (which is a direct GDP input) expected to post a solid 0.4% gain versus the 0.5% gain in July. Overall sales are expected up 0.4% versus 0.5% in July while sales ex-autos & gas are expected up 0.5% versus 0.6% in July. The rub, however, is that this release is reported nominally and thus not inflation-adjusted. Therefore any uptick has to be considered in light of the inflation readings that will come this week. Despite that caveat, if the report comes as expected it will follow a solid July and provide good footing for third quarter GDP estimates that are presently in the 3.0% range which will be impressive in light of the 4.2% gain in the second quarter.

4. **August Industrial Production —Thursday**

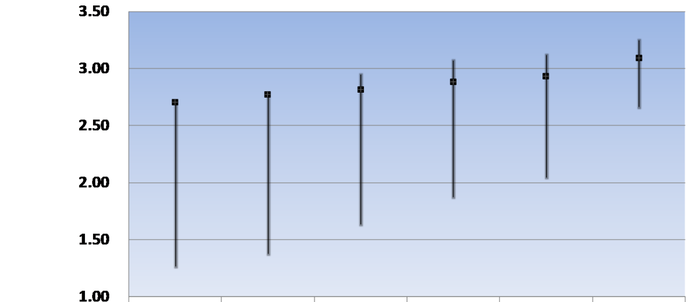
Expectations are for August industrial production to increase 0.3% month-over-month versus 0.1% the prior month. The average over the past year has been 0.35% so a near-trend print is expected. Stripping out the volatile utility component manufacturing is expected to be up 0.4% versus 0.3% the prior month. The average over the past year has been 0.2% so an above-average print is expected. Finally, capacity utilization is expected to be 78.3% versus 78.1% the prior month indicating excess capacity is slowly being taken up. In total, a solid August from the manufacturing/industrial sector is expected.

5. **University of Michigan Consumer Sentiment —Friday**

The preliminary read on September consumer sentiment on Friday is expected to print at 96.8 compared to July's 96.2. The sentiment index has averaged 98.0 over the past year so a slightly below-trend reading but a solid result is expected nonetheless. The survey also contains two inflation measures that are watched by the Fed. Consumers expect inflation over the next year to be 3.0% and the longer-run expectation (5-10 years) moderately lower at 2.6%. The near-term inflation expectation has been edging higher of late and the Fed will be sensitive if consumers continue to ratchet-up expectations and that could give them yet another reason to continue with the quarterly rate hiking schedule.

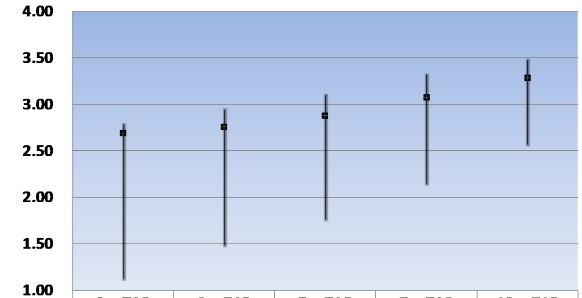
Investment Yield Ranges Over Last Year

US Treasuries



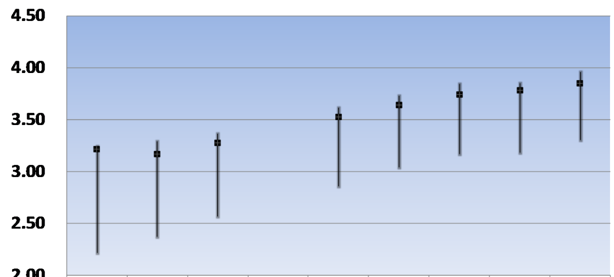
	2 year	3 year	5 year	7 year	10 year	30 year
▪ CURRENT	2.70	2.77	2.82	2.88	2.94	3.09
52 WEEK HIGH	2.70	2.78	2.94	3.07	3.11	3.25
52 WEEK LOW	1.26	1.37	1.63	1.87	2.04	2.66

FHLB (TAPs) Agency Bullets



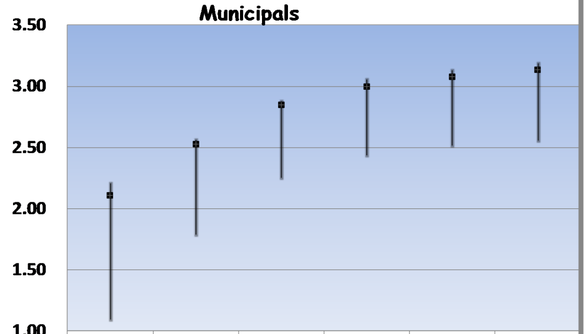
	2yr TAP	3yr TAP	5yr TAP	7yr TAP	10yr TAP
▪ CURRENT	2.69	2.76	2.88	3.07	3.28
52 WEEK HIGH	2.78	2.94	3.09	3.31	3.48
52 WEEK LOW	1.13	1.49	1.76	2.15	2.57

Mortgage Backed Securities (FNMA)



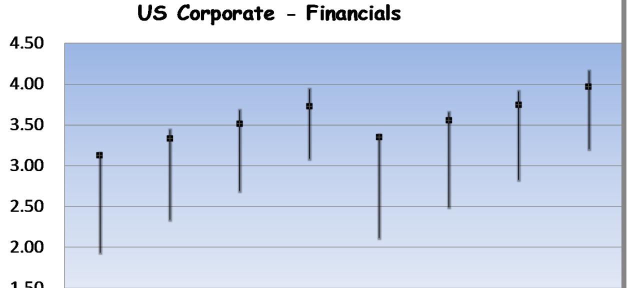
	15 yr 2.5%	15 yr 3.0%	15 yr 3.5%		30yr 3.0%	30yr 3.5%	30yr 4.0%	30yr 4.5%	30yr 5.0%
▪ CURRENT	3.22	3.17	3.28		3.53	3.64	3.74	3.79	3.85
52 WEEK HIGH	3.24	3.29	3.36		3.61	3.73	3.84	3.85	3.96
52 WEEK LOW	2.22	2.37	2.57		2.86	3.04	3.17	3.18	3.30

Municipals



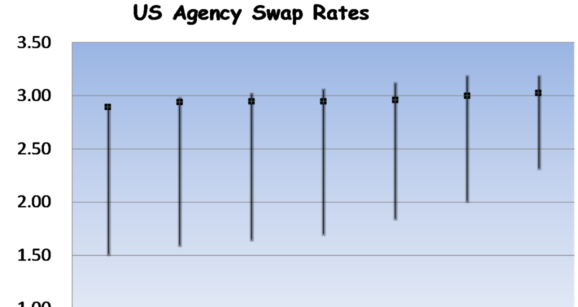
	5yr AAA	10yr AAA	15yr AAA	20yr AAA	25yr AAA	30yr AAA
▪ CURRENT	2.11	2.53	2.85	3.00	3.08	3.14
52 WEEK HIGH	2.21	2.56	2.88	3.06	3.13	3.19
52 WEEK LOW	1.10	1.79	2.25	2.44	2.52	2.56

US Corporate - Financials



	3yr AA	5yr AA	7yr AA	10yr AA	3yr A	5yr A	7yr A	10yr A
▪ CURRENT	3.13	3.33	3.52	3.73	3.35	3.56	3.75	3.97
52 WEEK HIGH	3.16	3.44	3.67	3.93	3.38	3.65	3.91	4.16
52 WEEK LOW	1.94	2.34	2.69	3.09	2.12	2.49	2.83	3.20

US Agency Swap Rates



	2yr	3yr	4yr	5yr	7yr	10yr	30yr
▪ CURRENT	2.90	2.94	2.95	2.95	2.96	3.00	3.03
52 WEEK HIGH	2.90	2.97	3.02	3.05	3.11	3.18	3.18
52 WEEK LOW	1.51	1.60	1.65	1.70	1.85	2.01	2.33

*Source: Bloomberg

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