THE AUSTIN ADVISOR

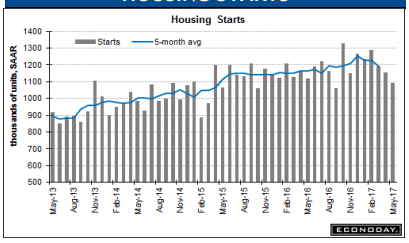
July 17, 2017

Markets	10-Jul	11-Jul	12-Jul	13-Jul	14-Jul	YTD%	30-Dec-16
DJIA	21,408.52	21,409.07	21,532.14	21,553.09	21,637.74	9.49%	19,762.60
S&P 500	2,427.43	2,425.53	2,443.25	2,447.83	2,459.27	9.85%	2,238.83
NASDAQ	6,176.39	6,193.31	6,261.17	6,274.44	6,312.47	17.26%	5,383.12
SNL Bank Index	559.34	555.55	555.05	558.17	553.69	3.95%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.22%	1.22%	1.22%	1.23%	1.23%		0.77%
3 Month LIBOR	1.30%	1.30%	1.30%	1.30%	1.30%		1.00%
3 Month T-Bill	1.04%	1.05%	1.05%	1.05%	1.04%		0.51%
1 Year Treasury	1.23%	1.20%	1.21%	1.23%	1.22%		0.85%
2 Year Treasury	1.40%	1.37%	1.35%	1.37%	1.35%		1.20%
3 Year Treasury	1.59%	1.57%	1.53%	1.55%	1.54%		1.47%
5 Year Treasury	1.93%	1.92%	1.88%	1.89%	1.87%		1.93%
10 Year Treasury	2.38%	2.37%	2.33%	2.35%	2.33%		2.45%
30 Year Treasury	2.93%	2.92%	2.89%	2.92%	2.91%		3.06%

WEEKLY HIGHLIGHT

The data in the first six months of the year does not reflect any inflation pressures

HOUSING STARTS



(click to enlarge)

Economy	Week of July 10, 2017	
Consumer Credit	$18.4 Billion	The larger than expected report was due to credit card balances jumping $7.3B, as compared to only $1.2B in April
JOLTS	5.666 Million	This is the first signal that jobs are being filled as the report indicates a 5% drop in unfilled job openings in May
Producer Price Index	0.1%	No sign the transitory nature of inflation has turned up, with the YOY for the core rate still below 2%
Consumer Price Index	0.0%	No overall change for the month, with the core up only 0.1%, keeping the YOY increase at 1.7% after peaking at 2.3% in Jan
Retail Sales	-0.2%	A decline in sales in this non-price adjusted data, so lower prices depress the total number
Industrial Production	0.4%	The increase was driven by higher output in the mining sector, while manufacturing was up 0.2%

ON THIS DAY IN HISTORY

1821 - Spain cedes Florida to the U.S.

1861 - Congress authorizes paper money

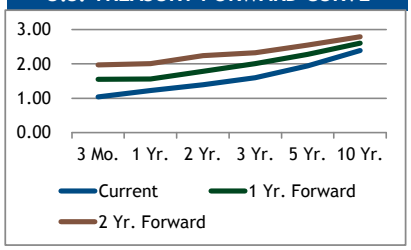
1914 - NY Giants outfielder Red Murray knocked unconscious by lightning after catching fly ball

1945 - 1st Potsdam Conference meeting

1989 - 1st test flight of U.S. stealth bomber

Calendar	Release	Covering	Week of July 17, 2017
Housing Starts	Wednesday	June	Starts have been weak in the past two months, but a large rebound is expected for June at 1.170 M after 1.092M in May
Leading Indicators	Thursday	June	Low interest rates and low new claims for unemployment are the largest factors contributing to the strength expected at 0.4%

U.S. TREASURY FORWARD CURVE



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Commentary

It was an interesting week. While Fed Chair Yellen was testifying before Congress on Wednesday and Thursday about **the Fed's** view of **inflation** risks, the **PPI** and **CPI** reported no inflation in June. The reaction was a loud "What is she worried about?". The Fed had said they expect inflation to reach their target of 2% by the end of this year. The data released last week does not indicate any pressures are building to achieve this goal. The lack of any surge in **consumer final demand** was evident in the **retail sales** for June. Sales are measured in dollar terms with no adjustment for price changes. The weak report was impacted by declining prices, even as unit volume increased. Prices must stabilize in order for the unit volume growth to generate better overall growth. The result is the core rate for the CPI has now increased by 1.7% over the past year. It had increased by 2.3% during 2016. The first half of this year has been a weak growth period and the lack of demand growth is making it difficult for anyone to raise prices. Demand must rise in order to generate the level of inflation the Fed wants to achieve. Without higher inflation, interest rates are not going to rise from current levels.

The testimony provided to Congress last week by the Fed Chair softened the tone of the outlook for higher inflation she had taken after the move by the **FOMC** in June. She said the Fed expects inflation to rise but if it does not, the pace of **normalization of monetary policy** would be slower than otherwise would be the plan. There will not be enough data between now and the September FOMC meeting to provide the evidence of any increasing inflation pressures. Therefore, the probability of a move by the Fed in September has declined. The Fed has said they plan one more rate hike this year and it appears this will now come in December. There is little data due to be released this week and investors will be left trying to parse the words by various Fed members as they make speeches.

We do not expect any large moves in interest rates unless we get at least two months of stronger economic and inflation data. Therefore, few banks will be raising deposit rates while loan offering rates will come under pressure. Many community banks continue to have excess liquidity with loan-to-asset ratio's below 70%. These banks will have an incentive to grow loans with yields in the low 4% area as a way to grow net interest income. Loan offering rates are higher than they were six months ago, after three upward moves in the Prime Rate, but are not going higher until inflation data moves higher. There is little reason to believe that is going to happen in the next three months.

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