THE AUSTIN ADVISOR

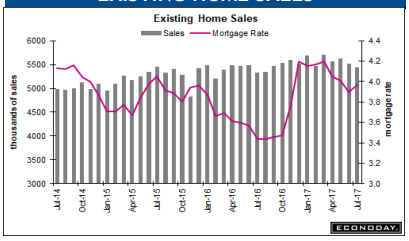
September 18, 2017

Markets	11-Sep	12-Sep	13-Sep	14-Sep	15-Sep	YTD%	30-Dec-16
DJIA	22,057.37	22,118.86	22,158.18	22,203.48	22,268.34	12.68%	19,762.60
S&P 500	2,488.11	2,496.48	2,498.37	2,495.62	2,500.23	11.68%	2,238.83
NASDAQ	6,432.26	6,454.28	6,460.19	6,429.08	6,448.47	19.79%	5,383.12
SNL Bank Index	530.63	539.89	542.42	539.55	542.22	1.80%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.24%	1.24%	1.23%	1.23%	1.24%		0.77%
3 Month LIBOR	1.32%	1.32%	1.32%	1.32%	1.32%		1.00%
3 Month T-Bill	1.05%	1.03%	1.04%	1.05%	1.05%		0.51%
1 Year Treasury	1.24%	1.27%	1.27%	1.28%	1.30%		0.85%
2 Year Treasury	1.32%	1.33%	1.35%	1.37%	1.39%		1.20%
3 Year Treasury	1.44%	1.46%	1.48%	1.50%	1.53%		1.47%
5 Year Treasury	1.71%	1.75%	1.78%	1.79%	1.81%		1.93%
10 Year Treasury	2.14%	2.17%	2.20%	2.20%	2.20%		2.45%
30 Year Treasury	2.75%	2.78%	2.79%	2.77%	2.77%		3.06%

WEEKLY HIGHLIGHT

The FOMC meeting this week will reflect a divided Fed on the future course of monetary policy

EXISTING HOME SALES



(click to enlarge)

Economy	Week of September 11, 2017	
JOLTS	6.170 Million	Jobs open but not filled increased by 1%, even as the number of those working rose indicating difficulty in finding workers
Producer Price Index	0.2%	This data is pre-hurricane impact and continues to reflect almost no inflation pressure building, with the core up 2.0% YOY
Consumer Price Index	0.4%	Energy prices had begun to rise even before the hurricanes to drive overall rate up, while the core rate was up 0.2%
Retail Sales	-0.2%	The consumption side of the economy starts the third quarter weaker than expected, as July's strength was revised down
Industrial Production	-0.9%	Manufacturing and refining was impacted by the hurricanes as production was closed down before they hit
Capacity Utilization	76.1%	Down from 76.9% in July and will be even more impacted with the September data from the hurricanes

ON THIS DAY IN HISTORY

1502 - Christopher Columbus lands at Costa Rica on his 4th voyage

1793 - President Washington lays the cornerstone of the US Capitol Building

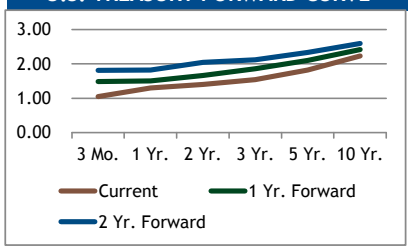
1848 - Baseball rules 1st baseman can tag base for out

1882 - Pacific Stock Exchange opens

1965 - 'Get Smart', starring Don Adams, debuts

Calendar	Release	Covering	Week of September 18, 2017
Housing Starts	Tuesday	August	Starts have been weak in three of the last four months of data, with a small improvement to 1.175M expected
Existing Home Sales	Wednesday	August	After declining by 1.3% in July, only a modest increase to 5.48M is expected as low inventories continue to be a problem
FOMC Statement	Wednesday		No change in current managed rates is expected from this meeting, with balance sheet unwinding the central issue
Leading Indicators	Thursday	August	Low interest rates and high consumer confidence continue to drive this outlook for the future up, expect a 0.2% rise

U.S. TREASURY FORWARD CURVE



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Commentary

The Fed meets this week with several cross currents driving the discussion. No change in the current level of managed interest rates is expected. This is the meeting which is followed by the press conference and the release of revised forecasts. These will be more important than the statement released at the end of the meeting. We should get some sense of the Fed's reaction to the hurricane impact to the economy and **inflation**. The inflation data from August, prior to the hurricanes, was slightly higher than in prior months and the data for the next two months will be higher, reflecting energy price spikes in gasoline and building materials. The core rate will be higher also since building material cost increases will affect the core. The issue is going to be how the Fed views these weather affected results in their decision about their desired goal of **normalizing monetary policy**. One indication of their process will be whether they announce the beginning of the process of unwinding their balance sheet in October or if they delay the change to a later date. We believe they will delay the beginning of the process until they get more data about the full impact to the economy from the hurricanes. It is difficult to begin the process of removing liquidity from the economy when the demand for liquidity has increased in the rebuilding process in Texas and Florida. As mentioned, this is a meeting that is followed by the Chairman's press conference and the release of the revised quarterly forecasts for the economy and inflation. These will have a greater impact on financial markets than any change in the language in the statement issued at the end of the meeting. It will be the Fed's expectation for inflation that will drive monetary policy decisions going forward.

The inflation data released last week was slightly higher than the prior six months, but was still low. Investors and the Fed will ignore the headline inflation data in the next two months. That data will reflect a much higher rate of inflation, but is driven by the weather events. Oil prices have been driven by the closing of oil production due to the storms and gasoline prices are being driven by the closing of refineries due to the storms. We will need to wait until data in the first few months of 2018 to determine whether the fundamental factors driving inflation have moved higher. The third quarter has started on a weaker consumption pattern with **retail sales** coming in lower in August and July's strong growth revised to half the rate first reported. One month of data from August is not enough to cause inflation risk to be priced into the bond market. Market rates have risen in the last week from the very low levels reached as the storms started, but that is just a rebound from the low levels they reached. The ten-year treasury is now above 2.20%, but was at 2.60% at the beginning of the year. The two-year treasury is almost 1.4% or about the level it has traded for most of this year. We have removed any expectation of a Fed move in December. This forecast will be tested with the FOMC meeting and the release of new forecasts from them this Wednesday.

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