THE PROBANK AUSTIN ADVISOR

ProBank Austin

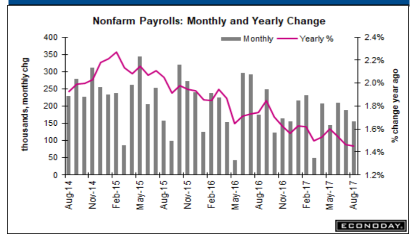
October 2, 2017

Markets	25-Sep	26-Sep	27-Sep	28-Sep	29-Sep	YTD%	30-Dec-16
DJIA	22,296.09	22,284.32	22,340.71	22,381.20	22,405.09	13.37%	19,762.60
S&P 500	2,496.66	2,496.84	2,507.04	2,510.06	2,519.36	12.53%	2,238.83
NASDAQ	6,370.59	6,380.16	6,453.26	6,453.45	6,495.96	20.67%	5,383.12
SNL Bank Index	559.28	559.72	569.60	570.87	573.18	7.61%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.24%	1.23%	1.24%	1.24%	1.23%		0.77%
3 Month LIBOR	1.33%	1.33%	1.33%	1.34%	1.33%		1.00%
3 Month T-Bill	1.05%	1.06%	1.07%	1.06%	1.06%		0.51%
1 Year Treasury	1.30%	1.31%	1.33%	1.31%	1.31%		0.85%
2 Year Treasury	1.44%	1.45%	1.47%	1.45%	1.47%		1.20%
3 Year Treasury	1.56%	1.57%	1.60%	1.59%	1.62%		1.47%
5 Year Treasury	1.85%	1.87%	1.91%	1.89%	1.92%		1.93%
10 Year Treasury	2.22%	2.24%	2.31%	2.31%	2.33%		2.45%
30 Year Treasury	2.76%	2.78%	2.86%	2.87%	2.86%		3.06%

WEEKLY HIGHLIGHT

The hurricane impacted data is beginning and the bond market is ignoring it

NONFARM PAYROLLS



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Economy	Week of September 25, 2017	
New Home Sales	560,000	The weakness came from the southern states as a result of the hurricanes in Texas and Florida
Consumer Confidence	119.8	As expected, the index dropped from a revised 120.4 in August, but remains at very high levels
Durable Goods Orders	1.7%	A second consecutive jump in capital goods caused overall orders to increase after the large decline reported for July
Real GDP-Final Revision	3.1%	Final number was increased from 3.0% as business fixed investment was stronger than first estimated
Personal Income	0.2%	Income growth slowed in August as wages were unchanged, reflecting growth in lower paying jobs
Personal Spending	0.1%	Final demand was weak starting the third quarter affected by hurricane Harvey late in the month
Core PCE Price Index	0.1%	Still no inflation as the low data for the month dropped, the YOY increase to 1.4% from 1.5%

ON THIS DAY IN HISTORY

1789 - Bill of Rights goes to states for ratification

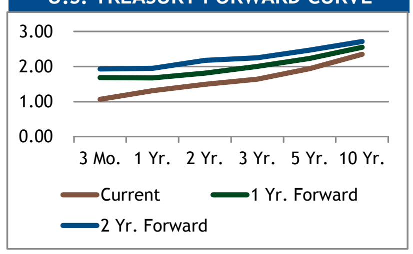
1889 - Last great silver boom of the Old West

1910 - 1st 2 aircraft collision occurs

1950 - Charlie Brown first published

Calendar	Release	Covering	Week of October 2, 2017
ISM Index	Monday	September	The private index has been much stronger than the data released in Washington; expect a reading above 60, up from 58
Motor Vehicle Sales	Tuesday	September	Sales have slowed in the last three months but will rebound to replace cars lost in the hurricanes, expect 16.7M for September
Trade Deficit	Thursday	August	A small narrowing is expected at -$42.5B as exports are expanding at a better pace on improved growth in foreign markets
Unemployment	Friday	September	No change in the 4.4% rate reported for August is expected, as job growth equals the growth in the labor force
Nonfarm Payrolls	Friday	September	A slowing rate of job growth is expected for the month as
Average Hourly Earnings	Friday	September	Earnings have increased at a 2.5% rate of growth in the past year and are expected to be up 0.3% for the month

U.S. TREASURY FORWARD CURVE



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Commentary

The first of the weather impacted economic data was released last week and more will be released this week. **The home sales data** was depressed as the largest sector of the housing markets are located in the rapidly growing south. The **personal income and spending** data was below the trends of the last three months. The data released to date is for August, which was impacted in the last week of the month. A larger impact will be reflected this week. The September **labor market data** will reflect the effects of the hurricanes, with job growth low and wages lower as many hourly workers did not work during the storms. This data will largely be ignored as investors believe the weak data released over the next three months will rebound later as reconstruction occurs. An example is **auto sales**. Sales have dropped from above 17M annualized for the past six months and will be reported as lower than that for September and October, but will be well above 17M thereafter as damaged vehicles are replaced under insurance protection. The one piece of data that is important was the **Core PCE Price Index** was only up 0.1% in August. This is the measure of **inflation** the **Fed** uses for monetary policy decisions. The low August data dropped the year-over-year increase to only 1.4%, down from the 1.5% increase through July. This low number and the low spending data even before the full effect of the hurricanes is included calls into question wheither the Fed will move managed rates again this year.

There has been an increase in market interest rates over the past two weeks. The yield on the two-year treasury has moved up from 1.30% to 1.48%. The five-year treasury has moved to 1.93% from 1.75% over the past month. These rates are still below year-end 2016 levels but are well above the lows reached in August. The long-end of the curve has also moved up, but less than the short and intermediate portion. Investors are beginning to price higher inflation risk into current rate levels. The problem is there is no indication inflation is beginning to rise. In fact, the data released recently indicates inflation is moving lower. The weather affected data due out in the next two months will delay any ability to determine whether inflation is in fact rising. Without higher inflation data, the Fed will be hard pressed to continue its efforts to **normalize monetary policy**. Even the Fed admits their understanding of the fundamental factors driving inflation may not be as they have been in the past. Fed Chairwoman Yellen said in a speech last week, "the Fed may not understand the changes in economic conditions that does not generate inflation when the labor market tightens". In the absence of a full understanding, the Fed will move very cautiously in raising managed rates. The good news is the rise in short and intermediate market rates will take the recent pressure on loan pricing away. With alternative bond investments available at higher yields, loan pricing can move higher.

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