THE PROBANK AUSTIN ADVISOR

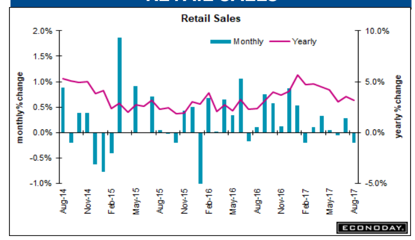
October 9, 2017

Markets	2-Oct	3-Oct	4-Oct	5-Oct	6-Oct	YTD%	30-Dec-16
DJIA	22,557.60	22,641.67	22,661.64	22,775.39	22,773.67	15.24%	19,762.60
S&P 500	2,529.12	2,534.58	2,537.74	2,552.07	2,549.33	13.87%	2,238.83
NASDAQ	6,516.72	6,531.71	6,534.63	6,585.36	6,590.18	22.42%	5,383.12
SNL Bank Index	578.27	579.43	574.92	582.14	582.79	9.41%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.23%	1.24%	1.24%	1.24%	1.24%		0.77%
3 Month LIBOR	1.34%	1.34%	1.35%	1.35%	1.35%		1.00%
3 Month T-Bill	1.01%	1.07%	1.08%	1.07%	1.07%		0.51%
1 Year Treasury	1.31%	1.32%	1.33%	1.35%	1.35%		0.85%
2 Year Treasury	1.49%	1.47%	1.47%	1.49%	1.54%		1.20%
3 Year Treasury	1.63%	1.62%	1.62%	1.63%	1.66%		1.47%
5 Year Treasury	1.94%	1.92%	1.92%	1.94%	1.97%		1.93%
10 Year Treasury	2.34%	2.33%	2.33%	2.35%	2.37%		2.45%
30 Year Treasury	2.87%	2.87%	2.87%	2.89%	2.91%		3.06%

WEEKLY HIGHLIGHT

Economic data released last week was the first of the weather affected reports

RETAIL SALES



(click to enlarge)

Economy	Week of October 2, 2017	
ISM Index	60.8	The best reading since 2005, with strength across the board in components indicating strong factory output going forward
Motor Vehicle Sales	18.6 Million	Biggest monthly sales number since 2006 as the replacement of vehicles from the hurricanes drive sales up
Trade Deficit	-$42.4 Billion	Deficit narrowed from -$43.6B in July, as exports increased by 0.4% and imports dropped by 0.1%
Unemployment	4.2%	Down from 4.4% in August to the lowest reading since 2001, but the report is impacted by hurricanes
Nonfarm Payrolls	-33,000	Investors and the Fed will ignore this number since it is a function of the disruptions from the weather
Average Hourly Earnings	0.5%	Again, this large increase was due to the low paying jobs being affected the most by disruptions from the weather

ON THIS DAY IN HISTORY

1701 - Collegiate School of Ct (Yale U) chartered in New Haven.

1936 - Hoover Dam begins transmitting electricity to Los Angeles

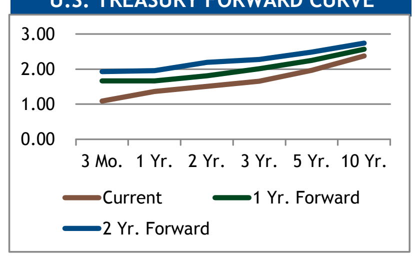
1949 - Harvard Law School begins admitting women.

1974 - Oskar Schindler dies

1986 - Phantom of Opera makes its theatrical debut

Calendar	Release	Covering	Week of October 9, 2017
JOLTS Index	Wednesday	August	The index of unfilled job openings jumped above 6.17M in July and is expected to settle back to 6.17M for August
Producer Price Index	Thursday	September	Inflation remains low with the core rate up only 0.1% in August; only +0.2% is expected for September
Consumer Price Index	Friday	September	The headline number is expected to be up a large 0.6%, but the core rate excluding food and energy only up 0.2%
Retail Sales	Friday	September	Total sales are expected to be up 2% on strong car sales, but excluding auto's and gasoline up a more modest 0.4%

U.S. TREASURY FORWARD CURVE



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Commentary

The first of the hurricane affected data was released last week with September data. The employment report was all over the map. **Nonfarm payrolls** were reported as having declined by 33,000 for the month. The **unemployment rate** dropped to a cycle low of 4.2%, and average hourly earnings jumped by 0.5%. The problem is in the data collected to estimate these results. The unemployment rate uses telephone household surveys. The survey was conducted during the week of Hurricane Irma and after Harvey. The data is difficult to use since many calls in the survey were not taken and therefore, the estimates used by the **Labor Department** were larger than normal. The nonfarm payroll number is a survey of companies and their labor force. Far fewer of the monthly survey forms were returned in September due to closings from the hurricanes and the Labor Department imputed these results based on the results of the forms that were returned. The decline in nonfarm payrolls was at odds with the huge growth in people with jobs in the unemployment rate. The loss of jobs in the nonfarm payroll number was primarily due to a decline of 111,000 jobs in leisure and hospitality sectors which were most affected by the hurricanes in states where tourism is such a major industry. The **BLS** said they did not believe the hurricanes had a major impact on the unemployment rate, but we believe it did.

The other data from last week was also impacted by the weather. **Auto sales** surged in September, as the demand for new cars to replace those lost in the hurricanes affected overall demand. We expect both the labor market report and auto sales to begin to return to more normal levels in the next two months. The surge in auto sales will drive a huge increase in **retail sales** for the month. The key will be retail sales growth excluding auto's and gas. That is expected to be up much less. The **inflation** data due out this Thursday and Friday is also expected to be impacted by the storms, with energy and building material prices up.

Again, it will be the core rate which will be most important and those numbers are expected to be much more modest. The bond market has reacted to the noise of faulty data by taking market interest rates up. The two-year treasury, which is the most sensitive to **Fed monetary policy changes**, moved above 1.5% in yield and the five-year was just under 2% in yield. The Fed Funds future market is now pricing a 75% probability of another 25 basis point increase by the Fed in December. We do not expect the Fed to move this year. Inflation data and labor market data are both unreliable in terms of reflecting the fundamental condition of the U.S. economy until the weather affects have diminished. That will not happen before the December **FOMC** meeting. We expect the Fed to stay on the sidelines awaiting more data. That data has not yet reflected significant upward pressure on prices and no inflation risks. Until inflation increases, there is no reason for the Fed to raise rates and run the risk of short circuiting the business