THE PROBANK AUSTIN ADVISOR

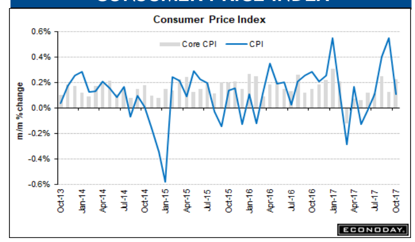
December 11, 2017

Markets	4-Dec	5-Dec	6-Dec	7-Dec	8-Dec	YTD%	30-Dec-16
DJIA	24,290.05	24,180.64	24,140.91	24,211.48	24,329.16	23.11%	19,762.60
S&P 500	2,639.44	2,629.57	2,629.27	2,636.98	2,651.50	18.43%	2,238.83
NASDAQ	6,775.37	6,762.21	6,776.37	6,812.84	6,840.08	27.07%	5,383.12
SNL Bank Index	617.41	612.84	609.13	611.53	614.57	15.38%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.39%	1.40%	1.41%	1.43%	1.44%		0.77%
3 Month LIBOR	1.51%	1.52%	1.52%	1.54%	1.55%		1.00%
3 Month T-Bill	1.29%	1.30%	1.30%	1.29%	1.28%		0.51%
1 Year Treasury	1.66%	1.64%	1.68%	1.67%	1.65%		0.85%
2 Year Treasury	1.80%	1.83%	1.78%	1.80%	1.80%		1.20%
3 Year Treasury	1.93%	1.94%	1.92%	1.92%	1.92%		1.47%
5 Year Treasury	2.15%	2.15%	2.11%	2.14%	2.14%		1.93%
10 Year Treasury	2.37%	2.36%	2.33%	2.37%	2.38%		2.45%
30 Year Treasury	2.77%	2.73%	2.71%	2.76%	2.77%		3.06%

WEEKLY HIGHLIGHT

The meeting of the FOMC this week will set the tone for monetary policy in 2018

CONSUMER PRICE INDEX



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Economy	Week of December 4, 2017	
Trade Deficit	-$48.7 Billion	A 1.6% increase in imports and no growth in exports makes the start of the fourth quarter much weaker than expected
Consumer Credit	$20.5 Billion	The increase was well above expectations, fueled by a large $8.3 billion growth in credit card balances
Unemployment rate	4.1%	The labor market continues to tighten, with unemployment remaining unchanged at a very low level
Nonfarm Payrolls	228,000	Job growth was much stronger than expected for the first month in the last four not impacted by the hurricanes
Avg. Hourly Earnings	0.2%	In spite of the strong jobs numbers, wage rate gains remain very modest with the YOY increase remaining at 2.5%

ON THIS DAY IN HISTORY

1620 - Mayflower pilgrims land at Plymouth Rock

1816 - Indiana becomes 19th state of the Union

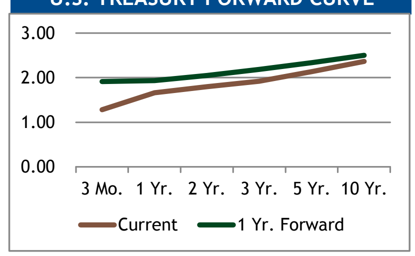
1913 - Mona Lisa recovered 2 years after it was stolen from the Louvre

1934 - NL votes to permit night baseball

1975 - US 1st class postage increases from 10 cents to 13 cents

Calendar	Release	Covering	Week of December 11, 2017
JOLTS	Monday	October	The number of unfilled posted job openings has moved above 6 million and is expected to remain at this elevated level
Producer Price Index	Tuesday	November	Prices for wholesale trade services have driven the index up in the last two months; expect 0.3% following 0.4% in October
Consumer Price Index	Wednesday	November	The consensus calls for a rise of 0.4% for the month and another month of 0.2% for the core rate
FOMC Meeting Statement	Wednesday		Another increase of 25 basis points for the Funds rate is expected and no change in guidence for further increases in 2018
Revised FOMC Forecasts	Wednesday		Investors will focus on any change to the Fed's forcasts for economic growth and inflation going forward
Fed Chair Press Conference	Wednesday		This will be the last press conference for outgoing Chair Yellen and she is expected to defend decisions made in the last four years
Retail Sales	Thursday	November	Slightly stronger sales in November than October at 0.3% vs. 0.2%, with auto sales a large variance
Industrial Production	Friday	November	The large increase reported for October of 0.9% is expected to be followed with a solid 0.4% led by manufacturing
Capacity Utilization	Friday	November	The operating rate is expected to continue to move higher at 77.2%, but still below inflationary levels

U.S. TREASURY FORWARD CURVE



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Commentary

The Fed meets this week and everyone expects them to move managed rates up another 25 basis points. This move would bring the total move to 100 basis points since the Fed started to **normalize monetary policy** in December 2015. This move by the Fed is already priced in the bond market so we do not expect any reaction to the move. The bigger issue will be the revised forecasts for 2018 by Fed members. The prior forecasts for both economic growth and **inflation** did not include the expectation of tax reform being passed. This revised forecast should include lower taxes. Investors will focus on Fed expectations for the impact of lower corporate taxes on capital spending and ultimately inflation. Prior guidence from the Fed called for three rate increases in 2018, with the risk now being four or more increases with faster growth and higher inflation pressures after the tax cut. The economic data released in the last two months has been strong enough to allow the Fed to move faster without running the risk of causing the economy to slip into recession.

That data included the labor market report from last Friday. **Nonfarm payroll** growth was above expectations with growth of 228,000 in total. One of the strongest sectors was manufacturing jobs. These jobs tend to be higher paying ones and this could lead to acceleration in wage rates and inflation. The average hourly wage rates have not yet reflected upward pressure on labor costs, with the year-over-year increase in wages holding at 2.5%. There is concern the **tight labor market** is going to lead to rapid increases in labor costs, which will cause increases in end product prices. To date, there is no evidence this is beginning. Without inflation rising, long-term market interest rates have not risen while the short end of the **curve** has, in response to the Fed action. The most important data affecting financial markets will be the changes to the Fed forecasts from tight labor markets and a tax cut.

The other data due out this week include **retail sales** for November and **industrial production**. Retail sales are expected to be up 0.3% for the month, which is a solid growth number but down from the weather affected data of the last two months when auto sales surged due to replacement demand. The industrial production data is expected to be strong, with manufacturing activity improving at a rapid pace. The foundation for higher inflation has been laid, but the data this week is not expected to realize an acceleration. The mystery of little inflation in the current economic environment continues to baffle economists with many cultural shifts being cited. We continue to forecast little change in inflation through the first half of 2018 before increases above the Fed's target of 2% is reached. That means we will continue to experience a flat yield curve well into next year.

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