Capital Markets Group

Weekly Review—July 14, 2023

The market was on inflation watch this week. Here is what they saw…

<u>Consumer Inflation</u>

Intermediate-term treasury yields fell as much as 15bps on Wednesday as weaker-than-expected consumer inflation data gave investors hope that the Fed is close to ending their historic rate hikes. Consumer price index (CPI) rose 3% in June from a year ago. The core measure – which extracts the volatile food and energy components – advanced 4.8% below street median estimates of 5% and marking the lowest level in nearly two years. While the Fed is still expected to increase rates 25bps at this month's policy meeting, the market is betting that the 25bps rate hike in two weeks could be the last this cycle as the probability of another Fed rate hike after this month fell below 50%.

<u>Producer Inflation</u>

Like Wednesday, intermediate-term treasury yields fell as much as 14bps on Thursday as weaker-than-expected producer inflation (Producer Price Index – PPI) data provided additional support that this month's expected rate hike could be the last. Furthermore, a slowdown in key PPI categories points to just a modest increase in the Fed's preferred inflation metric – the PCE - which will be released later this month. The probability of another Fed rate hike after this month fell below 30% - vs. yesterday's 50%.

While this week's inflation data suggested that the Fed's benchmark rate may be close to topping out, market focus will shift from how much "higher" to how much "longer" as investors will look for clues as to how long can policy maker's keep overnight rates at current levels. The answer lies in the financial health of the economy – i.e., the consumer!

With this month's key inflation data behind us, the market now waits for the next Fed's policy meeting scheduled for July 25-26.

Dennis Zimmerman Jr.
Senior Vice President
Senior Manager – Asset/Liability Services
Commerce Bank – Capital Markets Group (CMG)

NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
07/19/2023	$8,000,000	BOONE CO MO FIRE PROT DT UT GO BQ Aa2	2024-2043
07/20/2023	$1,700,000	PACIFIC MO FIRE PROT DT UT GO BQ Aa3	2026-2042

Economic Release	Data Period	Date	Survey	Actual	Prior
Wholesale Inventories	May (F)	07/10/2023	-0.1%	0.0%	-0.1%
MBA Mortgage Applications	Jul 7	07/12/2023	NA	0.9%	-4.4%
CPI MoM	Jun	07/12/2023	0.3%	0.2%	0.1%
CPI YoY	Jun	07/12/2023	3.1%	3.0%	4.0%
CPI Core YoY	Jun	07/12/2023	5.0%	4.8%	5.3%
PPI Final Demand MoM	Jun	07/13/2023	0.2%	0.1%	-0.4% (rev up)
PPI Final Demand YoY	Jun	07/13/2023	0.4%	0.1%	0.9% (rev down)
Initial Jobless Claims	Jul 8	07/13/2023	250k	237k	249k (rev up)
Continuing Claims	Jul 1	07/13/2023	1720k	1729k	1718k (rev down)
U, of Mich. Sentiment	Jul (P)	07/14/2023	65.5	72.6	64.4

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	8.25	8.25	4.75
Discount Rate	5.25	5.25	1.75
Fed Funds Rate	5.08	5.08	1.58
Interest on Reserve Bal.	5.15	5.15	1.65
SOFR	5.05	5.05	1.54
11th Dist COFI (ECOFC)	2.73	2.57	0.49
1-Yr. CMT	5.34	5.26	3.21
Dow	34,509.03	33,979.33	30,630.17
NASDAQ	14,113.70	13,626.48	11,251.19
S&P 500	4,505.42	4,372.59	3,790.38
Bond Buyer	3.66	3.67	3.34

MUNI AA—BQ

3 Mo.	2.68
6 Mo.	2.78
1-Year	3.06
2-Year	2.94
3-Year	2.82
5-Year	2.68
7-Year	2.67
10-Year	2.75
30-Year	3.88

Treasuries & New Issue Agencies *(Spread to Treasuries)*

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	5.37				
6 Mo. Bill	5.47				
1-Year Bill	5.29				
2-Year Note	4.71	10	81	81	
3-Year Note	4.32	10	85	82	81
5-Year Note	3.99	7	98	93	86
7-Year Note	3.89	30	105	99	89
10-Year Note	3.78	50	120	111	99
20-Year Bond	4.08				
30-Year Bond	3.90				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+55
2-Year	60	75
3-Year	85	110
5-Year	110	135

MBS Current Coupon Yields

GNMA 30 Yr.	5.24%
FNMA 30 Yr.	5.50%
FNMA 15 Yr.	5.00%

The Weekly Review is a publication of the Capital Markets Group of Commerce Bank.