



Weekly Review—October 11, 2019

With both producer and consumer inflation continuing to miss the mark, the Fed should have little concern that another 25bps cut in its benchmark rate later this month would cause price gains to surpass their target. September's producer price index (PPI), which posted its biggest monthly drop in more than four years, suggests weaker demand is forcing companies to lower prices. Analysts monitor producer prices closely as to assess potential price pressures expected to show up at the consumer level. At the consumer level, headline consumer price index (CPI) was flat in September, a bit softer than expectations after a 0.1% increase in August. On a year-over-year basis, inflation was steady at 1.7%. Core consumer inflation rose only 0.1% in September after a 0.3% gain in the prior month, missing expectations of a 0.2% decline. Following three consecutive months of relatively strong increases in the core CPI -- something that last occurred in 1995 -- consumer inflation pressures eased up in September. This casts some doubt over whether inflation is indeed poised to reach the Fed's target in the near term.

As the October 29-30 FOMC meeting approaches, policy makers will continue to grapple whether the gloomy outlook for global growth and deteriorating business confidence amid the Administration's ongoing trade disputes will cause a deeper U.S. economic slowdown. Minutes of the September FOMC meeting, which were released earlier this week, showed a strong divide among FOMC members in terms of appropriate policy action. Earlier today, Boston Fed President Rosengren argued that the Fed's recent moves to lower rates are enough to address the risks threatening an economy that is otherwise in good shape. Rosengren, among the more hawkish FOMC members and a voter this year, stated "Monetary policy is already accommodative." These remarks contrast with comments from Minneapolis Fed President Kashkari, one of the most dovish FOMC members. Kashkari, who was speaking also today but is not a voter this year, said he would "probably" support a rate cut when Fed officials gather later this month.

According to fed fund futures trading, October's 25bps cut is likely. After that, expected policy action gets a little more challenging.

Your comments/questions are encouraged.

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
10/15/2019	\$4,995,000	WEBSTER GROVES MO 2019 UT GO BQ Aa1	2020-2029
10/15/2019	\$3,080,000	EUREKA KS 2019 UT GO NR	2021-2039
10/15/2019	\$470,000	RURAL WTR DIST 1 WASHINGTON CO KS 2019A REVS BQ	2020-2030
10/16/2019	\$4,740,000	LIBERTY MO SPECIAL OB 2019 REVS A+	2020-2039
10/16/2019	\$5,200,000	USD 265 SEDGWICK CO KS 2019A UT GO BQ	2020-2024

ECONOMIC CALENDAR

Monday 10/14	Tuesday 10/15	Wednesday 10/16	Thursday 10/17	Friday 10/18
	Empire Manufacturing	MBA Mortgage Applications Retail Sales Advance MoM	Housing Starts Initial Jobless Claims Industrial Production MoM	Leading Index

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	5.00	5.25	5.25	3 Mo.	1.09
Discount Rate	2.50	2.75	2.75	6 Mo.	1.12
Fed Funds Rate	1.82	2.13	2.18	1-Year	1.14
IOER	1.80	2.10	2.20	2-Year	1.15
1-Month Libor	1.92	2.04	2.28	3-Year	1.16
11th Dist COFI	1.16	1.16	1.02	5-Year	1.22
1-Yr. CMT	1.67	1.81	2.67	7-Year	1.32
Dow	26,816.59	27,137.04	25,052.83	10-Year	1.54
NASDAQ	8,057.04	8,169.68	7,329.06	30-Year	2.20
S&P 500	2,970.27	3,000.93	2,728.37		
Bond Buyer	2.59	2.97	4.37		

Treasuries & New Issue Agencies (<i>Spread to Treasuries</i>)						CMO Spreads to Treasuries		
	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year		PAC	Vanilla
3 Mo. Bill	1.66					1-Year	N/A	+45
6 Mo. Bill	1.67					2-Year	52	65
1-Year Bill	1.66					3-Year	62	78
2-Year Note	1.61	4	29	12		5-Year	77	88
3-Year Note	1.59	5	41	26	2	MBS Current Coupon Yields		
5-Year Note	1.58	10	59	45	23	GNMA 30 Yr.	2.45%	
7-Year Note	1.67	19	65	53	35	FNMA 30 Yr.	2.72%	
10-Year Note	1.75	26	79	68	54	GNMA 15 Yr.	2.23%	
30-Year Bond	2.21					FNMA 15 Yr.	2.28%	

About the Author, Dennis Zimmerman



In 2015, Dennis joined Commerce Bank's Capital Markets Group as Manager of Asset/Liability Services. With his leadership, the Capital Market's ALM team provides asset/liability management consulting services to community banks.

Prior to joining Commerce, he was employed for nearly 26 years at one of the largest privately-held banks in Kansas. In addition to managing a \$775 million bond portfolio, his Asset/Liability Chairman responsibilities included managing margin, interest rate risk, liquidity and capital. Prior to becoming the bank's Finance Treasury Officer, he was a Registered Investment Representative and Supervising Principal in the bank's Capital Markets division.

As a seasoned professional, Mr. Zimmerman offers a comprehensive understanding of bank finance treasury, fixed income, complex financial analysis as well as regulatory and operational awareness. As a banker, he understands the challenge of balancing shareholder expectations within appropriate levels of risk.

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