THE PROBANK AUSTIN ADVISOR

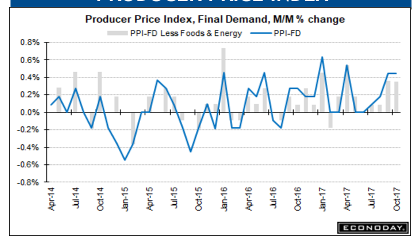
November 20, 2017

Markets	13-Nov	14-Nov	15-Nov	16-Nov	17-Nov	YTD%	30-Dec-16
DJIA	23,439.70	23,409.47	23,271.28	23,458.36	23,358.24	18.19%	19,762.60
S&P 500	2,584.84	2,578.87	2,564.62	2,585.64	2,578.85	15.19%	2,238.83
NASDAQ	6,757.60	6,737.87	6,706.21	6,793.29	6,782.79	26.00%	5,383.12
SNL Bank Index	569.16	569.78	572.73	574.16	573.66	7.70%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.25%	1.26%	1.27%	1.28%	1.29%		0.77%
3 Month LIBOR	1.42%	1.42%	1.42%	1.44%	1.44%		1.00%
3 Month T-Bill	1.24%	1.26%	1.25%	1.27%	1.29%		0.51%
1 Year Treasury	1.55%	1.55%	1.55%	1.59%	1.60%		0.85%
2 Year Treasury	1.70%	1.68%	1.68%	1.72%	1.73%		1.20%
3 Year Treasury	1.82%	1.81%	1.79%	1.83%	1.83%		1.47%
5 Year Treasury	2.08%	2.06%	2.04%	2.07%	2.06%		1.93%
10 Year Treasury	2.40%	2.38%	2.33%	2.37%	2.35%		2.45%
30 Year Treasury	2.87%	2.84%	2.77%	2.81%	2.78%		3.06%

WEEKLY HIGHLIGHT

The inflation data last week was stronger than expected, but the bond market is not convinced

PRODUCER PRICE INDEX



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Economy		Week of November 13, 2017
Producer Price Index	0.4%	The first surprising inflation number reported this year, with service sector price increases the primary factor
Consumer Price Index	0.1%	The CPI did not confirm the rise in inflation from the PPI report, with the core rate up 0.2%
Retail Sales	0.2%	As expected, following the hurricane impacted 1.9% gain in September, with ex-auto's and gas up a much stronger 0.3%
Industrial Production	0.9%	The strength in the ISM and durable goods is finally driving output up, with manufacturing component up a strong 1.3%
Capacity Utilization	77.0%	The rise from a revised 76.4% is further confirmation of the rebound in output, which should drive GDP numbers higher
Housing Starts	1.290 Million	The 13.7% growth for the month was well above forecasts, driven by both single and multi-family starts up by double digits

ON THIS DAY IN HISTORY

1861 - Secession ordinance filed by Kentucky's Confederate governement

1873 - Rival cities of Buda & Pest unite to form capital of Hungary

1917 - First successful tank use in battle in WWI

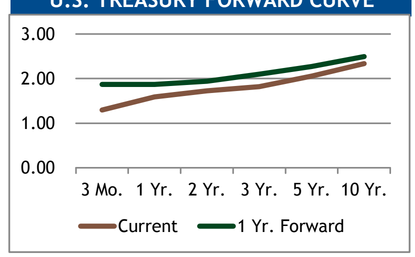
1928 - Boston Gardens opens

1947 - 'Meet the Press' debuts on NBC

1962 - Mickey Mantle wins AL MVP

Calendar	Release	Covering	Week of November 20, 2017
Leading Indicators	Monday	October	Index dropped by 0.2% in September due to hurricanes and is expected to rebound by 0.6% for October
Existing Home Sales	Tuesday	October	Home sales have been very volatile with the hurricanes, but are expected to be a solid 5.440M for October
Durable Goods Orders	Wednesday	October	Orders had been trendless for the first seven months, but broke out on the upside in August and September; forecast +0.4%
Thanksgiving Day	Thursday		All financial markets closed

U.S. TREASURY FORWARD CURVE



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Commentary

The first small sign of some **inflation** pressures were contained in last weeks data. The **Producer Price Index** was up 0.4% for the month of October. This takes the year-over-year increase up to 2.8%, from 2.6% though September. The monthly data was driven by the services sector. **Trade services** jumped 1.1% for the month and this followed a strong 0.8% for September. This sector gain was primarily due to higher prices for legal and health care services. The core rate, excluding food and energy, was also up 0.4% taking the YOY gain up to 2.4% from 2.2%. The **Consumer Price Index** did not reflect upward pressure. The monthly gain was only 0.1% and the core rate was 0.2%. This brings the core rate up to a 1.8% year-over-year increase, which is still below **the Fed's** target of 2.0%. The risk is the rise in wholesale prices will begin to work into final consumer prices.

The industrial production report was also strong, led by a large jump in manufacturing. We have been expecting this improvement based on the strong **ISM Index** and strong durable goods orders in the past three months. This kind of data is further fuel for a **Fed** increase in managed rates next month. The bond market still does not expect rising **inflation**. The yield on the ten-year bond declined after the release of this data. The short end of **the curve** continues to move higher in anticipation of the Fed action on December 13. The yield on the ten-year has declined by 3 basis points in the last month, while the yield on the two-year has risen by 17 basis points. The spread between the two and ten-year now stands at 61 basis points, down from 83 basis points one month ago. Clearly, there continues to be no risk premium in the long end of the curve for rising inflation possibilities.

We do not expect the bond market will price in inflation risk until there is an acceleration in wage rates. Even the existing tight labor market has not resulted in higher wages driving labor costs higher. Companies have begun to increase investments in their own business, with rising levels of business fixed investment. They are attempting to keep the labor content low while they grow output. The rise in **industrial production** and manufacturing reported for October did not cause average hourly earnings to jump in the labor report for the month. There is a lag between an increase in output and a rise in wages. This risk is wages will begin to rise at a faster pace as output and economic activity continues to accelerate. This has not happened yet. The **yield curve** will remain flat until investors demand a higher yield on longer term to protect against rising inflation. Our forecast calls for this to begin to develop in the second half of next year. The one forecast we know will prove correct is that you'll have a Happy Thanksgiving as you gather with your family.