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It should be noted at the outset of today's missive that Baker Market Updates do not disseminate fake news. Just the facts, ma'am! Well, mostly just the facts. And, it's a fact that Janet Yellen gave her semi-annual Humphrey-Hawkins testimony to Congress this week. How many synonyms are there for "moderate"? A rhetorical question; more importantly, she sees enough strength in this moderately growing economy to support what sounds like her intention to gradually raise interest rates. She also thinks that a higher interest rate environment will help keep the current level of inflation from becoming something more than, say it with me: "moderate".

As luck would have it, investors got some inflation news just this very week. The Consumer Price Index (CPI) rose rather immoderately in January by 0.6% for a year-over-year rate of 2.5%. That's up from an annualized 2.1% last month. At the "core" level without food & energy, CPI rose by 0.3% for the month and by 2.3% year-over-year. This report from the Bureau of Labor Statistics came in with higher readings than what many expected and has ginned up renewed expectations for an Ides of March move by the FOMC. And speaking of expectations, the National Federation of Independent Businesses updated its Small Business Optimism Index and found that the already-rosy-outlook became even more so as its value edged up to 105.9 from 105.8. Experts were expecting a decline.

Experts were not expecting a decline in new Housing Starts, but instead, they fell by 2.6% in what was actually a pretty warm January. Also falling was Industrial Production. But, and there's always a but, the reported monthly decline of 0.3% was really due to the Utility Output component plummeting by 5.7%; the most since early 2006. Warm January. So, that means that the production of stuff at factories actually rose by 0.2%, and that's pretty good news. Unfortunately, the nation's Capacity Utilization fell from 75.6% to 75.3% and that news is less good. With a 9.3% Underemployment Rate and a lot of underutilized manufacturing capacity, many observers are not seeing the inflationary handwriting on the wall that many others seem to. Who writes on walls, anyway?! Maybe there will soon be more walls on which to write since Building Permits rose by an unexpectedly high 4.6%.

More good news for manufacturing came in from a couple of sources as the Empire Manufacturing Index (New York) and the Philadelphia Fed Business Outlook Survey Diffusion Index of General Conditions (just rolls right off your tongue doesn't it?) rose dramatically and unexpectedly. Also rising were Retail Sales. The 0.4% January rise is being viewed as good news by many, but is it? Really? Adjusted for inflation, Real Retail Sales fell by 0.2%. Also really falling, by 0.6%, were inflation-adjusted Average Weekly Earnings. Janet is not going to like that very much.

Next week is a short one without much on the economic calendar, but the FOMC is still planning on publishing its minutes from the last meeting. Just the facts.

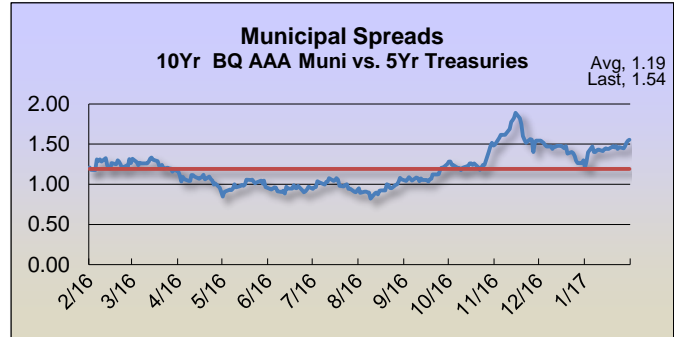
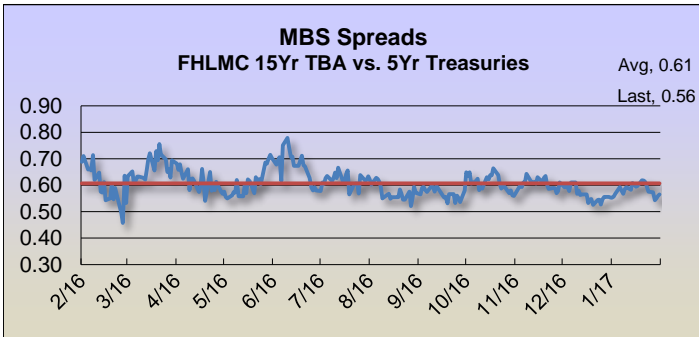
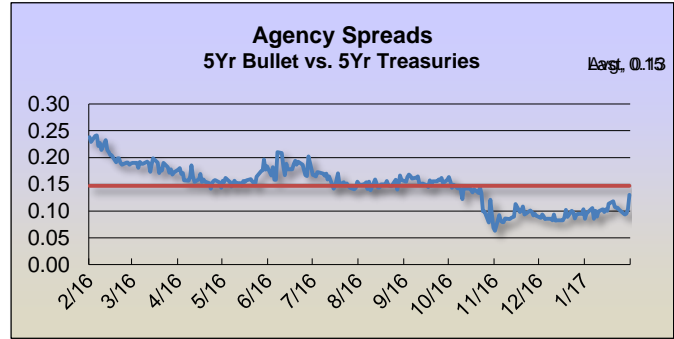
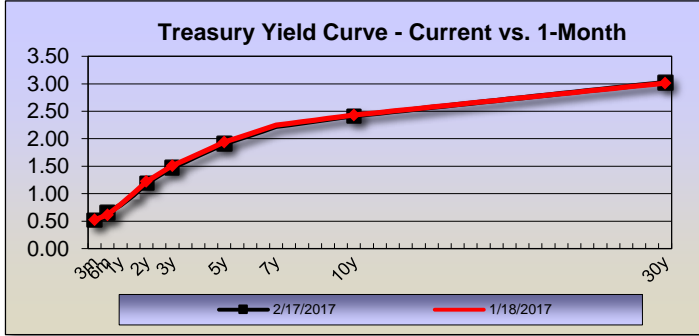
With January's unexpectedly large rise, this latest measure of inflation returns to where it was five years ago.



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Treasury Market -- Historical						Fixed Rate Market													
Maty	Current	1Wk Change	Historical			Maty /AL	N-Call Agency	US Swap	AAA BQ Muni		Tax Muni	Agency Calls - Euro							
			1 Mo	6 Mo	1 Yr				C-Corp <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr			
3mo	0.52	(0.02)	0.53	0.30	0.30	2yr	1.32	1.56	1.44	1.53	1.42	2Yr	1.34	1.35	1.34	-			
6mo	0.66	0.02	0.60	0.45	0.44	3yr	1.60	1.75	1.69	1.80	1.73	3Yr	1.64	1.69	1.67	1.61			
1yr	0.80	0.00	0.78	0.58	0.51	5yr	2.08	2.02	2.24	2.38	2.35	5Yr	2.04	2.12	2.10	2.07			
2yr	1.19	0.00	1.15	0.73	0.74	7yr	2.41	2.19	2.80	2.98	2.80	7Yr	2.29	2.36	2.37	2.38			
3yr	1.48	0.01	1.42	0.85	0.92	10yr	2.86	2.37	3.37	3.59	3.27	10Yr	2.53	2.63	2.66	2.66			
5yr	1.91	0.02	1.82	1.13	1.26	15yr	3.14	2.54	3.93	4.19	3.75	March TBA MBS							
7yr	2.22	0.01	2.13	1.40	1.57	20yr	3.44	2.61	4.27	4.54	3.83	Cpn	15Yr -Yld/AL		30Yr -Yld/AL				
10yr	2.42	0.01	2.33	1.55	1.82	25yr	3.73	2.64	4.33	4.61	3.86		2.00	2.48	6.1y	3.11	9.3y		
30yr	3.02	0.02	2.93	2.26	2.69	30yr	3.73	2.64	4.40	4.68	3.88		2.50	2.45	5.4y			3.13	7.9y
													3.00	2.36	4.9y			3.04	6.2y
													3.50	2.32	4.0y			2.87	5.3y
													4.00						
												4.50							

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.75	--	0.75	0.50	0.50
Primary Discount	1.25	--	1.25	1.00	1.00
2ndary Discount	1.75	--	1.75	1.50	1.50
Prime Rate	3.75	--	3.75	3.50	3.50
1 Month LIBOR	0.78	0.01	0.77	0.51	0.43
3 Month LIBOR	1.06	0.02	1.02	0.80	0.62
6 Month LIBOR	1.36	0.03	1.33	1.19	0.87
1 Year LIBOR	1.75	0.05	1.70	1.50	1.13
6 Month CD	1.31	0.01	1.51	1.28	0.78
1 Year CMT	0.82	0.02	0.82	0.57	0.51
REPO O/N	0.50	--	0.77	0.52	0.49
REPO 1Wk	0.69	0.20	0.70	0.40	0.52
CoF Federal	1.146	--	1.112	1.097	1.038
11th D. CoF (Dec)	0.599	--	0.603	0.690	0.655

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	0.72	0.90	0.78	0.84	Feb-17	0.655
6mo	0.81	0.96	0.84	0.96	Mar-17	0.690
1yr	1.10	1.14	1.06	1.18	Apr-17	0.705
2yr	1.40	1.62	1.44	1.62	May-17	0.785
3yr	1.71	1.90	1.77	1.90	Jun-17	0.845
4yr	1.97	2.18	2.04	2.17	Jul-17	0.895
5yr	2.14	2.35	2.21	2.32	Aug-17	0.935
7yr	2.52	2.77	2.60	2.64	Sep-17	0.965
10yr	2.98	3.24	3.06	3.10	Oct-17	1.035
5yr Am	1.80		1.91	2.08	Nov-17	1.065
10yr Am	2.49		3.04	2.72	Dec-17	1.135

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February 17, 2017

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
02/14	NFIB Small Business Optimism	Jan	105.00	105.90	105.80	--
02/14	PPI Final Demand MoM	Jan	0.30%	0.60%	<del>0.30%</del>	0.20%
02/14	PPI Ex Food and Energy MoM	Jan	0.20%	0.40%	<del>0.20%</del>	0.10%
02/14	PPI Ex Food, Energy, Trade MoM	Jan	0.20%	0.20%	0.10%	--
02/14	PPI Final Demand YoY	Jan	1.50%	1.60%	1.60%	--
02/14	PPI Ex Food and Energy YoY	Jan	1.10%	1.20%	1.60%	--
02/14	PPI Ex Food, Energy, Trade YoY	Jan	--	1.60%	1.70%	--
02/15	MBA Mortgage Applications	2/10	--	-3.70%	2.30%	--
02/15	Empire Manufacturing	Feb	7.00	18.70	6.50	--
02/15	CPI MoM	Jan	0.30%	0.60%	0.30%	--
02/15	CPI Ex Food and Energy MoM	Jan	0.20%	0.30%	0.20%	--
02/15	CPI YoY	Jan	2.40%	2.50%	2.10%	--
02/15	CPI Ex Food and Energy YoY	Jan	2.10%	2.30%	2.20%	--
02/15	CPI Core Index SA	Jan	--	250.78	<del>249.93</del>	250.01
02/15	CPI Index NSA	Jan	242.5	242.8	241.4	--
02/15	Real Avg Weekly Earnings YoY	Jan	--	-0.6%	<del>0.2%</del>	0.4%
02/15	Real Avg Hourly Earning YoY	Jan	--	0.0%	0.8%	--
02/15	Retail Sales Advance MoM	Jan	0.10%	0.40%	<del>0.60%</del>	1.00%
02/15	Retail Sales Ex Auto MoM	Jan	0.40%	0.80%	<del>0.20%</del>	0.40%
02/15	Retail Sales Ex Auto and Gas	Jan	0.30%	0.70%	<del>0.00%</del>	0.10%
02/15	Retail Sales Control Group	Jan	0.30%	0.40%	<del>0.20%</del>	0.40%
02/15	Industrial Production MoM	Jan	0.0%	-0.3%	<del>0.8%</del>	0.6%
02/15	Capacity Utilization	Jan	75.40%	75.30%	<del>75.50%</del>	75.60%
02/15	Manufacturing (SIC) Production	Jan	0.20%	0.20%	0.20%	--
02/15	NAHB Housing Market Index	Feb	67.00	65.00	67.00	--
02/15	Mortgage Delinquencies	4Q	--	4.8%	4.5%	--
02/15	MBA Mortgage Foreclosures	4Q	--	1.53%	1.55%	--
02/15	Business Inventories	Dec	0.40%	0.40%	<del>0.70%</del>	0.80%
02/16	Housing Starts	Jan	1226k	1246k	<del>1226k</del>	1279k
02/16	Housing Starts MoM	Jan	0.00%	-2.60%	11.30%	--
02/16	Building Permits	Jan	1230k	1285k	<del>1210k</del>	1228k
02/16	Initial Jobless Claims	2/11	245k	239k	234k	--
02/16	Continuing Claims	2/4	2050k	2076k	<del>2078k</del>	2079k
02/17	Leading Index	Jan	0.50%	0.60%	0.50%	--
02/21	Markit US Manufacturing PMI	Feb P	55.20	--	55.00	--
02/21	Markit US Services PMI	Feb P	55.80	--	55.60	--
02/21	Markit US Composite PMI	Feb P	--	--	55.80	--
02/22	MBA Mortgage Applications	2/17	--	--	-3.70%	--
02/22	Existing Home Sales	Jan	5.54m	--	5.49m	--
02/23	Initial Jobless Claims	2/18	240k	--	239k	--
02/23	Continuing Claims	2/11	2065k	--	2076k	--
02/23	House Price Purchase Index QoQ	4Q	0.40%	--	1.50%	--
02/23	Kansas City Fed Manf. Activity	Feb	--	--	9.00	--
02/24	New Home Sales	Jan	575k	--	536k	--
02/24	U. of Mich. Sentiment	Feb F	96.00	--	95.70	--
02/24	U. of Mich. Current Conditions	Feb F	--	--	111.20	--
02/24	U. of Mich. Expectations	Feb F	--	--	85.70	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	10.4	11.9	15.0	17.3	20.5	24.8
FH/FN 15y	6.8	8.8	12.3	14.2	17.2	19.3
GN 15y	10.3	13.2	15.1	16.5	16.3	16.4
FH/FN 20y		4.4	9.7	15.8	17.5	20.1
FH/FN 30y	2.6	4.4	7.6	14.7	19.8	22.2
GN 30y	7.0	9.0	14.5	18.5	21.5	23.5
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	10.9	12.0	12.9	15.1	15.4	16.1
FH/FN 15y	5.2	7.6	9.7	12.5	18.3	24.0
GN 15y	10.4	8.2	11.9	14.1	13.1	15.9
FH/FN 20y	6.0	6.1	8.1	10.6	12.8	13.8
FH/FN 30y	5.6	5.8	6.9	9.1	12.8	14.9
GN 30y	7.4	8.7	9.4	12.7	15.6	15.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	112.86	(0.36)	112.62	100.28	114.10
Euro	1.06	(0.00)	1.07	1.13	1.11
Dollar Index	100.89	0.09	100.33	94.72	96.79
<b>Major Stock Indices</b>					
Dow Jones	20,559	289	19,827	18,574	16,454
S&P 500	2,342.4	26.3	2,267.9	2,182.2	1,926.8
NASDAQ	5,818.0	84	5,538.7	5,228.7	4,534.1
<b>Commodities</b>					
Gold	1,237.5	3.1	1,212.9	1,342.7	1,211.1
Crude Oil	53.14	(0.72)	52.48	46.79	30.66
Natural Gas	2.87	(0.17)	3.41	2.62	1.94
Wheat	442.8	-6.3	433.5	426.0	468.5
Corn	370.3	-4.3	365.5	330.3	367.3

Notes	
1 Call Agy = Maturity at left w/ a 1-Year Call at Par	
2 Muni TEY (34% Fed, 0.5% CoF)	
3 S-Corp TEY Muni (39.6%, no TEFERA)	
4 MBS Prepayments are provided by Bloomberg	

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