

Baker Market Update: Week in Review

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When FDR once told the nation that the *only* thing to fear was fear itself, he left out the part about “fear itself” being plenty scary all on its own. And, “fear itself” is non-denominational. Doesn’t matter if it’s fear of a trade war, fear of a real war, or fear of the Fed; fear is scary. When investors become frightened, they sell the things that scare them, like stocks, and they buy the things that don’t scare them as much, like bonds. And that’s what happened yesterday after China announced plans to retaliate against U.S. tariffs on steel and aluminum with some tariffs of its own on things it imports from America; like pork, soybeans, and ginseng. Yes, China buys ginseng from the United States. Who knew?

So, equities took a considerable tumble yesterday as the rally in Treasury bonds showed that, at least to some investors, feisty Chinese ambassador Cui Tiankai is scarier than newly minted Fed Chairman Jerome Powell. In a posting to the U.S. Embassy’s Facebook page, (yes, the embassy has a Facebook page), the Chinese official was quoted as saying “If people want to play tough, we will play tough with them and see who will last longer.” Them’s fightin’ words, and while it’s not yet clear how the First Lady’s campaign against cyber-bullying will respond, it is clear that Mr. Tiankai has never read *The Art of the Deal*.

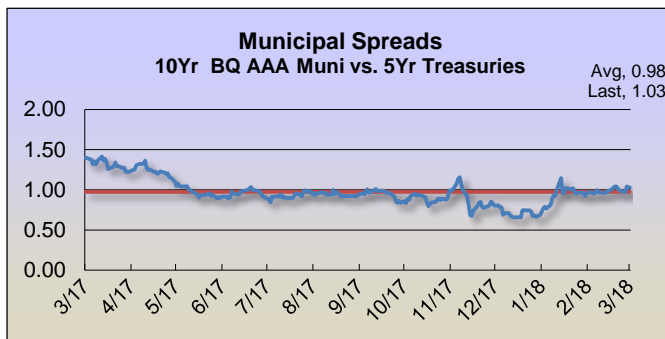
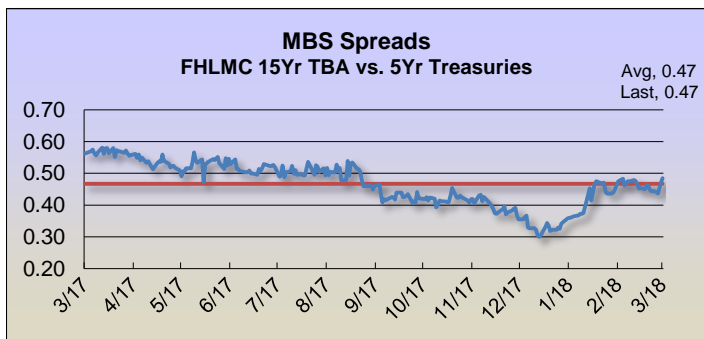
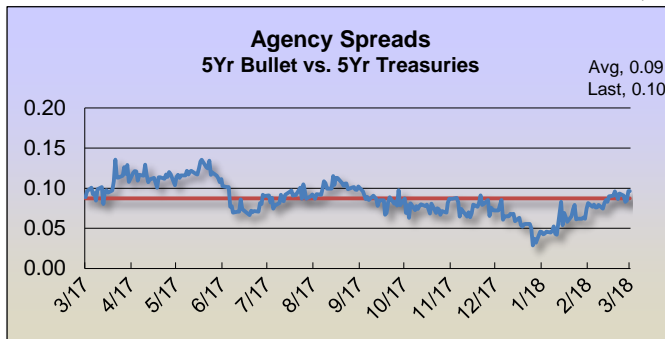
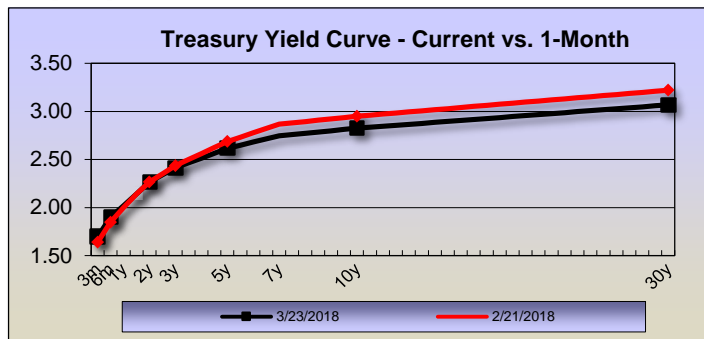
The potential for a big clash-over-commerce largely overshadowed what was supposed to be the week’s biggest event. Namely, the first FOMC meeting, press conference, and rate hike with Mr. Powell’s name on it. With the latest Fed Funds nudge having been fully priced in, the muted market reactions were more about the tone of the Committee’s message. Monetary Doves found solace in Jerome’s recognition of minimal inflation acceleration, while Hawks were comforted by what appears to be an intent to accelerate rate hikes on down the road. The new “dot plot”, a graphical representation of Committee Members’ individual rate path preferences, seems to reinforce this perception. While connecting the dots, some observers might notice that the plotters are just one dot away from a consensus that could result in three more hikes this year rather than the two additional increases anticipated by most. But, since this is a secret survey, no one knows which member belongs to which dot. Well, take that back, the Russians might know.

Mr. Powell, though, is not a big fan of the dot-plot and has previously pointed to its shortcomings as a forecasting tool. As The Rockman famously told Oblio, “you see what you want to see, and you hear what you want to hear”. Dots and plots aside, the Projections of Central Tendencies also point to perceptions of a future filled with faster growth and lower unemployment, even as preliminary estimates of first quarter growth continue to diminish in the face of weakening performance data. Mr. Powell also acknowledged the potentially stimulative effects of fiscal policy while simultaneously recognizing the uncertainty of that outcome.

Overnight, many thought that the \$1.3 trillion Congressional spending bill’s trip through the nation’s legislative process had come to a successful outcome with the only thing lacking being the President’s signature. Well, think again. Those planning to visit the Grand Canyon over the weekend might want to start working on Plan B as this morning’s headlines report that President Trump isn’t particularly enthused about the bill and might not sign it. If he doesn’t, the Grand Canyon, along with many other governmental attractions, might have to close. Check with the moose out front.

For market participants who prefer a little more melodrama with their uncertainty, yesterday’s announcement that National Security Adviser H.R. McMaster will be replaced by former U.N. Ambassador John Bolton should please them and add more fuel to a fire that doesn’t need more fuel. Another fire apparently got lit under those who place orders for Durable Goods. Not many numbers this week, but the 3.1% increase in that measure was a pleasant surprise and indicates to some that tax-cut-induced capital spending has arrived. Only time will tell.

By this time next week, we will have been told by the Bureau of Economic Analysis (BEA) what changes, if any, have been recorded in the Fed’s favored inflation measure; the Personal Consumption Expenditures Price Index. Mr. Powell, the hawk in doves’ clothing, may be disappointed if early estimates of little change prove accurate. We’ll also receive two fresh reports on consumer attitudes from the Conference Board and the University of Michigan, along with a BEA report on Personal Income and Personal Spending. Until then, the only thing to fear is whatever happens next. I can hardly wait. Be careful out there.



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 ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
3mo	1.70	(0.08)	1.64	1.02	0.76	2yr	2.39	2.60	2.30	2.44	2.51	2Yr	1.94	1.94	1.94	-
6mo	1.90	(0.05)	1.85	1.18	0.88	3yr	2.50	2.70	2.45	2.61	2.68	3Yr	2.10	2.11	2.11	2.10
1yr	2.02	(0.03)	2.00	1.30	0.96	5yr	2.75	2.77	2.84	3.02	3.03	5Yr	2.19	2.22	2.24	2.24
2yr	2.27	(0.03)	2.24	1.43	1.25	7yr	2.90	2.82	3.09	3.29	3.26	7Yr	2.42	2.47	2.52	2.53
3yr	2.41	(0.03)	2.39	1.58	1.49	10yr	3.11	2.87	3.46	3.68	3.53	10Yr	2.57	2.62	2.69	2.72
5yr	2.61	(0.03)	2.62	1.86	1.95	15yr	3.22	2.94	3.81	4.05	3.71	April TBA MBS				
7yr	2.75	(0.03)	2.79	2.09	2.24	20yr	3.33	2.96	4.03	4.29	3.78	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.82	(0.02)	2.87	2.25	2.42	25yr	3.45	2.95	4.12	4.38	3.83	2.00	2.99	5.5y		
30yr	3.07	(0.01)	3.16	2.78	3.03	30yr		2.93	4.20	4.47	3.87	2.50	2.98	5.5y		
												3.00	3.07	5.3y	3.38	9.9y
												3.50	3.01	4.0y	3.52	9.1y
												4.00			3.60	7.4y
												4.50			3.60	6.2y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	1.75	0.25	1.50	1.25	1.00
Primary Discount	2.00	--	2.00	1.75	1.50
2ndary Discount	2.50	--	2.50	2.25	2.00
Prime Rate	4.75	0.25	4.50	4.25	4.00
1 Month LIBOR	1.86	0.07	1.60	1.24	0.98
3 Month LIBOR	2.27	0.13	1.92	1.33	1.16
6 Month LIBOR	2.43	0.11	2.15	1.49	1.43
1 Year LIBOR	2.68	0.09	2.43	1.77	1.82
6 Month CD	2.43	0.09	2.18	1.43	1.42
1 Year CMT	2.05	--	2.02	1.30	0.99
REPO O/N	1.76	0.19	1.51	1.06	0.79
REPO 1Wk	1.93	0.27	1.51	1.19	0.88
CoF Federal	1.664	--	1.606	1.429	1.183
11th D. CoF (Jan)	0.777	--	0.753	0.707	0.616

FHLB Fixed Advance Rates					Fed Fund Futures	
Maturity	Chicago	Boston	Dallas	Topeka	Maturity	Rate
3mo	2.02	2.06	1.91	2.00	Mar-18	1.503
6mo	2.11	2.22	2.11	2.24	Apr-18	1.680
1yr	2.36	2.34	2.35	2.47	May-18	1.690
2yr	2.56	2.73	2.59	2.76	Jun-18	1.790
3yr	2.70	2.88	2.79	2.91	Jul-18	1.875
4yr	2.81	3.00	2.90	3.03	Aug-18	1.885
5yr	2.88	3.09	2.97	3.08	Sep-18	1.890
7yr	3.05	3.29	3.14	3.19	Oct-18	2.025
10yr	3.27	3.53	3.35	3.40	Nov-18	2.045
5yr Am	2.74		2.83	2.99	Dec-18	2.080
10yr Am	3.08		3.15	3.29	Jan-19	2.145

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
03/21	MBA Mortgage Applications	3/16	--	-1.10%	0.90%	--
03/21	Current Account Balance	4Q	-\$125.0b	-\$128.2b	-\$100.6b	-\$101.5b
03/21	Existing Home Sales	Feb	5.40m	5.54m	5.38m	--
03/21	FOMC Rate Decision (Upper Bound)	3/21	1.75%	1.75%	1.50%	--
03/21	FOMC Rate Decision (Lower Bound)	3/21	1.50%	1.50%	1.25%	--
03/22	Initial Jobless Claims	3/17	225k	229k	226k	--
03/22	Continuing Claims	3/10	1870k	1828k	1879k	1885k
03/22	FHFA House Price Index MoM	Jan	0.40%	0.80%	0.30%	0.40%
03/22	Bloomberg Economic Expectations	Mar	--	56.00	54.50	--
03/22	Bloomberg Consumer Comfort	3/18	--	56.80	56.20	--
03/22	Markit US Manufacturing PMI	Mar P	55.50	55.70	55.30	--
03/22	Markit US Services PMI	Mar P	56.00	54.10	55.90	--
03/22	Markit US Composite PMI	Mar P	--	54.30	55.80	--
03/22	Leading Index	Feb	0.50%	0.60%	1.00%	0.80%
03/22	Kansas City Fed Manf. Activity	Mar	17.00	17.00	17.00	--
03/23	Durables Ex Transportation	Feb P	0.50%	1.20%	-0.30%	-0.20%
03/23	Cap Goods Ship Nondef Ex Air	Feb P	0.50%	1.40%	-0.10%	0.10%
03/23	New Home Sales	Feb	620k	618k	593k	622k
03/26	Chicago Fed Nat Activity Index	Feb	--	--	12.00%	--
03/26	Dallas Fed Manf. Activity	Mar	33.50	--	37.20	--
03/27	S&P CoreLogic CS 20-City YoY NSA	Jan	6.10%	--	6.30%	--
03/27	S&P CoreLogic CS US HPI YoY NSA	Jan	--	--	6.27%	--
03/27	Richmond Fed Manuf. Index	Mar	22.00	--	28.00	--
03/27	Conf. Board Consumer Confidence	Mar	131.00	--	130.80	--
03/27	Conf. Board Present Situation	Mar	--	--	162.40	--
03/27	Conf. Board Expectations	Mar	--	--	109.70	--
03/28	MBA Mortgage Applications	3/23	--	--	-1.10%	--
03/28	Advance Goods Trade Balance	Feb	-\$74.2b	--	-\$74.4b	-\$75.3b
03/28	Wholesale Inventories MoM	Feb P	--	--	0.80%	--
03/28	GDP Annualized QoQ	4Q T	2.70%	--	2.50%	--
03/28	Personal Consumption	4Q T	--	--	3.80%	--
03/28	GDP Price Index	4Q T	2.30%	--	2.30%	--
03/28	Retail Inventories MoM	Feb	--	--	0.80%	0.70%
03/28	Core PCE QoQ	4Q T	--	--	1.90%	--
03/28	Pending Home Sales NSA YoY	Feb	--	--	-1.70%	--
03/29	Personal Income	Feb	0.40%	--	0.40%	--
03/29	Personal Spending	Feb	0.20%	--	0.20%	--
03/29	Real Personal Spending	Feb	0.10%	--	-0.10%	--
03/29	PCE Deflator YoY	Feb	1.70%	--	1.70%	--
03/29	PCE Core YoY	Feb	1.60%	--	1.50%	--
03/29	Initial Jobless Claims	3/24	230k	--	229k	--
03/29	Continuing Claims	3/17	--	--	1828k	--
03/29	Chicago Purchasing Manager	Mar	62.00	--	61.90	--
03/29	Bloomberg Consumer Comfort	3/25	--	--	56.80	--
03/29	U. of Mich. Sentiment	Mar F	102.00	--	102.00	--
03/29	U. of Mich. Current Conditions	Mar F	--	--	122.80	--
03/29	U. of Mich. 1 Yr Inflation	Mar F	--	--	2.90%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.9	12.1	14.2	15.9	23.8	30.4
FH/FN 15y	6.9	7.8	9.2	11.2	14.0	18.7
GN 15y	9.2	9.6	11.7	11.8	12.9	13.5
FH/FN 20y		4.8	7.0	8.7	10.6	13.2
FH/FN 30y	3.1	4.7	6.4	8.5	11.1	13.6
GN 30y	5.7	9.0	11.3	12.0	14.1	16.4
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.3	11.5	12.1	17.1	19.4	21.2
FH/FN 15y	6.9	7.6	8.5	11.2	22.4	25.0
GN 15y	6.7	8.2	11.3	14.1	13.1	13.2
FH/FN 20y	10.2	6.3	7.1	9.0	11.1	14.5
FH/FN 30y	4.9	5.2	5.9	7.2	10.0	13.0
GN 30y	5.6	7.8	8.9	11.3	15.6	19.5

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	105.13	(0.88)	106.89	111.73	110.94
Euro	1.23	0.00	1.23	1.18	1.08
Dollar Index	89.56	(0.67)	89.88	92.17	99.76
Major Stock Indices					
Dow Jones	24,070	(876)	25,310	22,350	20,657
S&P 500	2,648.7	(103.4)	2,747.3	2,502.2	2,346.0
NASDAQ	7,178.7	(303)	7,337.4	6,426.9	5,817.7
Commodities					
Gold	1,348.0	35.7	1,328.2	1,293.3	1,247.2
Crude Oil	65.34	3.00	63.55	50.66	47.70
Natural Gas	2.61	(0.08)	2.63	2.96	3.05
Wheat	451.0	-16.8	452.3	449.5	421.0
Corn	373.3	-9.5	366.3	353.5	356.8

Notes	
1 Call Agy = Maturity at left w/ a 1-Year Call at Par	
2 Muni TEY (21% Fed, 0.5% CoF)	
3 S-Corp TEY Muni (29.6%, no TEFERA)	
4 MBS Prepayments are provided by Bloomberg	

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