

## Baker Market Update: Week in Review

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With a long, holiday weekend awaiting most Americans, prudent travelers might want to reconfirm their reservations before getting on the bus. One never knows when plans might change. But, travel arrangements aren't the only things subject to sudden revision. It was reported yesterday afternoon that Administration officials were considering the possibility of lifting and/or cutting some of the trade tariffs that have been imposed upon Chinese imports. Apparently, Treasury Secretary Steven Mnuchin has been conducting a series of strategy meetings aimed at ways to advance the on-going trade talks and possibly gain China's support for longer-term reforms. Uncertainty over the issue's ultimate resolution is, and has been, often cited by business leaders and central bankers as one of the most significant threats to economic performance.

Threats are not new to British Prime Minister Theresa May as she dodged another no-confidence Parliamentary bullet this week. That same Parliament, although keeping Mrs. May and the Conservative party in power, voted to reject her Brexit plan 432-to-202. Whoa, that was close! They've got until March 29<sup>th</sup> to figure something out; or not.

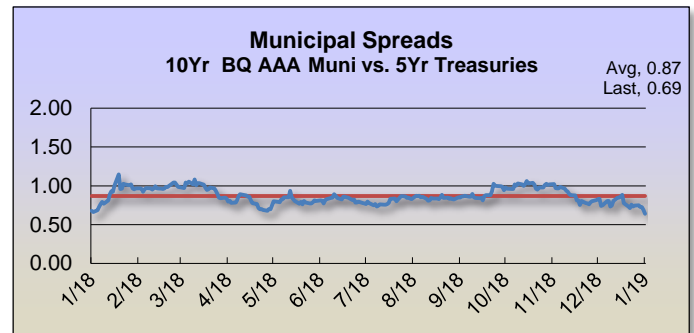
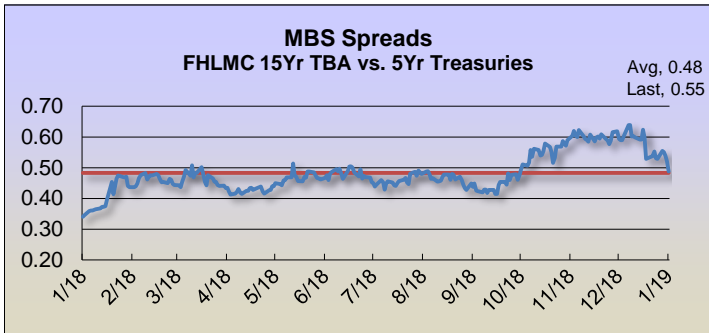
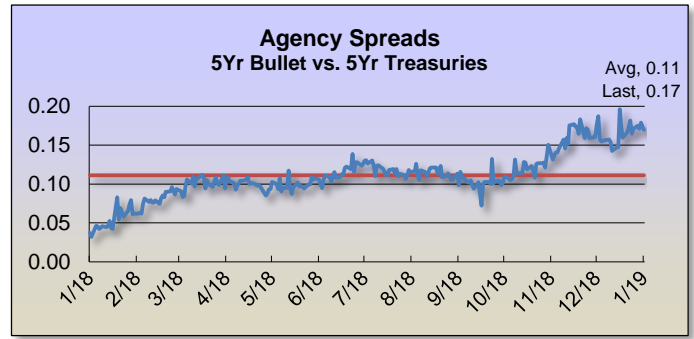
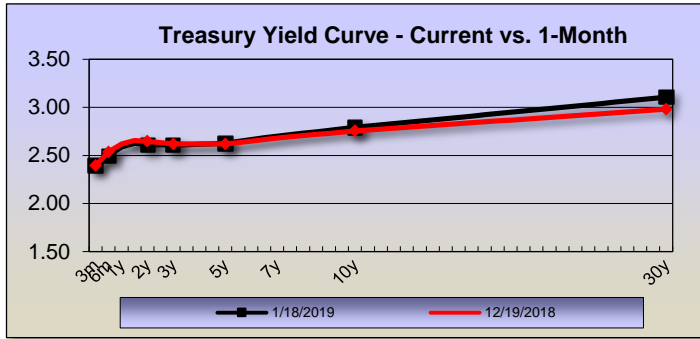
America's government, in the meantime, continues to run at three-quarter speed with no observable near-term prospect for restarting the other quarter. After four weeks of partial government shutdown (PGS), some analysts have estimated that each week of PGS will cost the economy 10-20 basis points of quarterly GDP. This is not a welcome prospect in the face of already down-trending growth estimates for America and the world. New York Fed President John Williams said this morning that he sees the economy growing between 2% and 2.5% in 2019. He also said, "If growth *continues* (emphasis added) to come in well above sustainable levels, somewhat higher interest rates may well be called for at some point." Is he saying that 2%-2.5% is above a sustainable level?

Maybe he saw Monday's report that the Empire Manufacturing Index plunged to 3.9 from 11.5 when it was only "supposed" to slip to 10. Maybe he saw that disinflation has crept into a Producer Price Index that fell by 0.2% at the core level last month. Maybe he read the BLS report on Wednesday that recorded a 1% drop in December's Import Price Index and a 0.6% decline for Export Prices. Data on Retail Sales, kind of a big deal, remains a mystery until the bureaucrats at the Bureau of Economic Analysis return to their posts.

Although none of the above would find its way into the "good news" category, that doesn't mean there wasn't any. The National Association of Home Builders reported its Housing Market Index improved slightly to 58 from 56. And unlike the Eagles whose season is over, the Philadelphia Fed looks to be just getting warmed up. Its Business Outlook Survey Diffusion Index of General Conditions surprised most everyone as it soared to 17 from 9.1 in the face of an expected decline. This morning, the Federal Reserve reported that Industrial Production rose by 0.3%, less than last month but better than a decline, while Capacity Utilization rose by 0.2% to 78.7%. No game changers there.

The game for consumers, though, just might be changing. The University of Michigan's preliminary report on Consumer Sentiment was published today and it's pretty clear that somebody out there is having a bad day. The overall Sentiment Index plunged, yes, plunged to 90.7 from 98.3. A little slip was expected, but only to about 97. It looks like consumers have undergone an attitude adjustment, but it got adjusted the wrong way. The Current Conditions sub-index could probably use a hug after it plummeted to 110 from 116. It was supposed to remain unchanged. Likewise with the Expectations part of the survey. That was *expected* to stay the same at 87 instead of nosediving to 78.3, once again proving that the key to happiness is low expectations.

Investors, however, are choosing to ignore that time-tested axiom and are pinning high hopes to the prospect of an easing of trade tensions with China. Equity market indices are up big today while bonds are selling off. Ten-Year Treasury notes are bringing in about 2.80% today and that five basis-point boost from yesterday reflects about a 3/8-point price drop as we head into the weekend. And for the contingent of legislators that were expecting to spend the weekend somewhere else, just take the long way home tonight. Have a great weekend; 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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	2.40	(0.02)	2.39	2.00	1.43	2yr	2.66	2.77	2.38	2.53	20.00	2Yr	1.94	1.94	1.94	-
6mo	2.50	(0.01)	2.53	2.16	1.62	3yr	2.67	2.72	2.41	2.56	27.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.59	0.02	2.63	2.40	1.76	5yr	2.74	2.71	2.56	2.73	42.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.61	0.07	2.64	2.61	2.05	7yr	2.90	2.74	2.72	2.89	57.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.61	0.09	2.63	2.69	2.17	10yr	3.15	2.82	3.08	3.28	69.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.63	0.10	2.65	2.77	2.42	15yr	3.33	2.90	3.61	3.84	99.00	February TBA MBS				
7yr	2.70	0.11	2.73	2.84	2.55	20yr	3.51	2.92	4.03	4.29	94.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.79	0.09	2.82	2.87	2.63	25yr	3.69	2.92	4.14	4.41	97.50	2.00	3.07	4.8y		
30yr	3.11	0.07	3.07	2.99	2.90	30yr		2.92	4.26	4.53	101.00	2.50	3.00	5.2y		
												3.00	3.07	5.4y	3.36	9.5y
												3.50	3.16	5.0y	3.54	8.8y
												4.00			3.67	6.6y
												4.50			3.85	6.6y

\* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	2.50	--	2.25	2.00	1.50
Primary Discount	3.00	--	2.75	2.50	2.00
2ndary Discount	3.50	--	3.25	3.00	2.50
Prime Rate	5.50	--	5.25	5.00	4.50
Sec. O.N. Finance	2.41	(0.02)	2.31	1.92	--
1 Month LIBOR	2.50	--	2.47	2.08	1.56
3 Month LIBOR	2.78	--	2.80	2.34	1.74
6 Month LIBOR	2.85	--	2.90	2.52	1.91
1 Year LIBOR	3.01	--	3.10	2.80	2.21
6 Month CD	2.84	--	2.87	2.51	1.90
1 Year CMT	2.57	--	2.66	2.39	1.79
REPO O/N	2.46	0.02	2.35	1.85	1.42
REPO 1Wk	2.44	--	2.40	1.98	1.46
CoF Federal	2.188	--	2.132	1.877	1.506
11th D. CoF (Nov)	1.060	--	1.079	0.885	0.746

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.59	2.73	2.77
6mo	2.65	2.75	2.78
1yr	2.79	2.81	2.92
2yr	2.79	2.95	3.00
3yr	2.81	2.99	3.03
4yr	2.86	3.05	3.08
5yr	2.90	3.09	3.12
7yr	3.13	3.36	3.27
10yr	3.36	3.61	3.50
5yr Am	2.86		3.08
10yr Am	3.16		3.36

Fed Fund Futures	
Maturity	Rate
Jan-19	2.403
Feb-19	2.400
Mar-19	2.405
Apr-19	2.405
May-19	2.420
Jun-19	2.440
Jul-19	2.470
Aug-19	2.475
Sep-19	2.480
Oct-19	2.480
Nov-19	2.475

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
01/15	Empire Manufacturing	Jan	10.00	3.90	<del>40.90</del>	11.50
01/15	PPI Final Demand YoY	Dec	2.50%	2.50%	2.50%	--
01/15	PPI Ex Food and Energy YoY	Dec	2.90%	2.70%	2.70%	--
01/15	PPI Ex Food, Energy, Trade YoY	Dec	2.80%	2.80%	2.80%	--
01/16	MBA Mortgage Applications	1/11	--	13.50%	23.50%	--
01/16	Import Price Index YoY	Dec	-0.80%	-0.60%	<del>0.70%</del>	0.50%
01/16	Export Price Index YoY	Dec	--	1.10%	1.80%	--
01/16	NAHB Housing Market Index	Jan	56.00	58.00	56.00	--
01/17	Philadelphia Fed Business Outlook	Jan	9.00	17.00	<del>9.40</del>	9.10
01/17	Initial Jobless Claims	1/12	220k	213k	216k	--
01/17	Continuing Claims	1/5	1734k	1737k	<del>1722k</del>	1719k
01/17	Bloomberg Consumer Comfort	1/13	--	58.10	58.50	--
01/17	Bloomberg Economic Expectations	Jan	--	44.50	50.00	--
01/18	Industrial Production MoM	Dec	0.20%	0.30%	<del>0.60%</del>	0.40%
01/18	Capacity Utilization	Dec	78.50%	78.70%	<del>78.50%</del>	78.60%
01/18	Manufacturing (SIC) Production	Dec	0.30%	1.10%	<del>0.00%</del>	0.10%
01/18	U. of Mich. Sentiment	Jan P	96.80	90.70	98.30	--
01/18	U. of Mich. Current Conditions	Jan P	116.00	110.00	116.10	--
01/18	U. of Mich. 1 Yr Inflation	Jan P	--	2.70%	2.70%	--
01/22	Existing Home Sales MoM	Dec	-0.90%	--	1.90%	--
01/22	Existing Home Sales	Dec	5.24m	--	5.32m	--
01/22	Advance Goods Trade Balance	Nov	-\$76.1b	--	<del>-\$77.2b</del>	-\$77.0b
01/22	Retail Inventories MoM	Nov	--	--	<del>0.90%</del>	0.80%
01/22	Wholesale Inventories MoM	Nov P	0.50%	--	0.80%	--
01/22	New Home Sales	Nov	567k	--	544k	--
01/22	Factory Orders Ex Trans	Nov F	--	--	0.30%	--
01/22	Durables Ex Transportation	Nov F	--	--	-0.30%	--
01/22	Cap Goods Ship Nondef Ex Air	Nov F	--	--	-0.10%	--
01/22	Trade Balance	Nov	-\$54.0b	--	-\$55.5b	--
01/22	Monthly Budget Statement	Dec	-\$10.0b	--	-\$204.9b	--
01/22	Retail Sales Ex Auto and Gas	Dec	0.40%	--	0.50%	--
01/22	Business Inventories	Nov	0.30%	--	0.60%	--
01/22	Net Long-term TIC Flows	Nov	--	--	\$31.3b	--
01/22	Total Net TIC Flows	Nov	--	--	\$42.0b	--
01/22	Housing Starts	Dec	1253k	--	1256k	--
01/22	Building Permits	Dec	1290k	--	1328k	--
01/23	FHFA House Price Index MoM	Nov	0.20%	--	0.30%	--
01/24	Initial Jobless Claims	1/19	215k	--	213k	--
01/24	Continuing Claims	1/12	--	--	1737k	--
01/24	Bloomberg Consumer Comfort	1/20	--	--	58.10	--
01/24	Markit US Composite PMI	Jan P	--	--	54.40	--
01/24	Markit US Manufacturing PMI	Jan P	53.50	--	53.80	--
01/24	Markit US Services PMI	Jan P	54.10	--	54.40	--
01/24	Leading Index	Dec	-0.10%	--	0.20%	--
01/25	Durables Ex Transportation	Dec P	0.10%	--	--	--
01/25	Cap Goods Ship Nondef Ex Air	Dec P	--	--	--	--
01/25	New Home Sales	Dec	567k	--	--	--

MBS Prepayments <sup>4</sup>						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	10.5	11.8	13.7	14.3	16.1	33.9
FH/FN 15y	5.6	5.8	6.4	7.6	13.1	15.0
GN 15y	6.8	9.3	11.1	12.6	12.2	11.3
FH/FN 20y		5.3	6.6	7.6	7.9	9.6
FH/FN 30y	1.3	4.9	3.9	3.5	4.5	7.5
GN 30y	8.6	8.8	10.8	13.6	11.6	12.1
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.5	12.3	12.8	19.3	12.9	26.7
FH/FN 15y	7.6	7.6	7.7	9.8	12.3	20.8
GN 15y	6.4	10.1	13.2	14.6	13.1	13.0
FH/FN 20y	0.1	6.8	7.4	9.8	12.7	11.1
FH/FN 30y	5.0	5.6	6.2	7.5	11.6	11.8
GN 30y	8.7	6.5	9.1	11.0	14.2	14.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	109.69	1.21	112.52	112.86	111.11
Euro	1.14	(0.01)	1.14	1.16	1.22
Dollar Index	96.31	0.64	97.10	95.09	90.50
<b>Major Stock Indices</b>					
Dow Jones	24,576	580	23,676	25,199	26,018
S&P 500	2,661.5	65.3	2,546.2	2,815.6	2,798.0
NASDAQ	7,153.2	182	6,783.9	7,854.4	7,296.0
<b>Commodities</b>					
Gold	1,282.4	(7.1)	1,249.2	1,227.9	1,327.2
Crude Oil	53.70	2.11	46.24	68.76	63.95
Natural Gas	3.27	0.18	3.84	2.72	3.19
Wheat	518.5	-1.0	532.8	494.5	425.3
Corn	381.5	3.3	385.5	347.3	351.5

**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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