

Baker Market Update: Week in Review

Lester Murray

Associate Partner

Financial Strategies Group

lester@gobaker.com

800.937.2257

The Baker Group

GoBaker.com

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



We've all heard the old saying "What you don't know can't hurt you." Were that true, our state of economic health would be unquestioningly robust. With each passing day of the partial government shutdown (PGS), the list of postponed data reports grows ever longer. This is becoming extremely inconvenient for a data-driven Fed that's not getting all the data. Until someone turns the lights back on at the Commerce Department, we're all in the informational dark. The FOMC's job is tough enough, and with the partial shutdown, the Committee is flying partially blind.

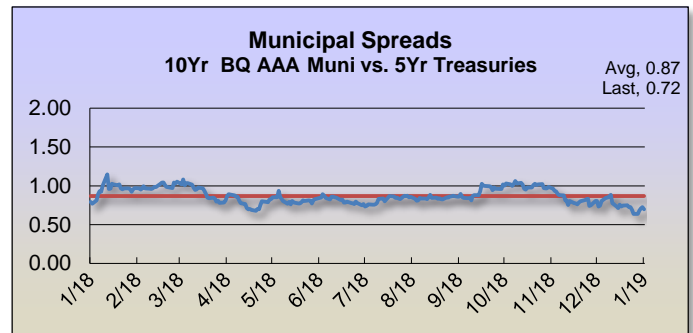
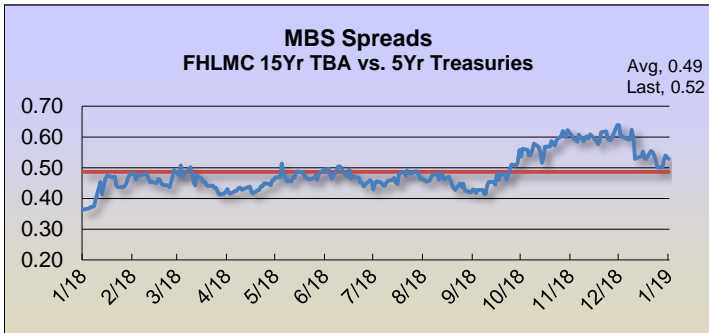
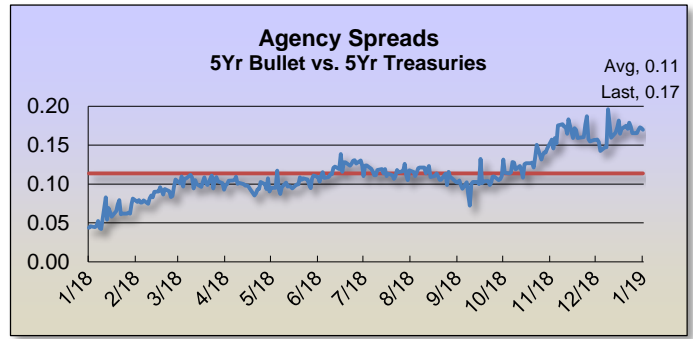
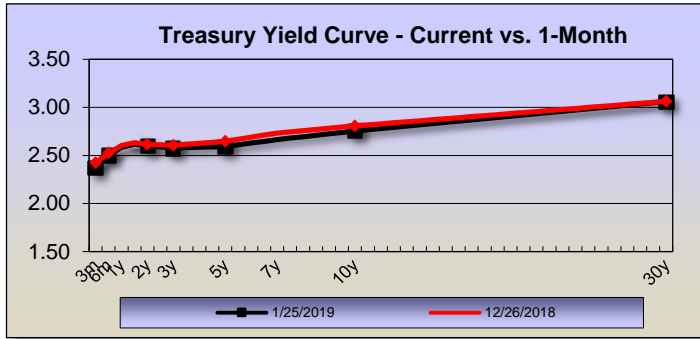
Since the government closures began in late December, investors and policymakers have missed reports on New Home Sales, Construction Spending, Factory and Durable Goods Orders, Retail Sales, and Housing Starts just to name a few. And if something doesn't happen soon, we're going to miss the publication of 4th Quarter GDP, Personal Spending & Income, and, this is huge, the Personal Consumption Expenditures report on inflation. You might have heard; the topic of inflation is kind of a big deal to the central bank these days.

But, some data continues to drip from the spigot of private entities and from those agencies not caught up in the political playground. The National Association of Realtors reported on Tuesday that Existing Home Sales undershot the expected 5 ¼ million by about a quarter-million. As for the prices of those homes, the FHFA reported a rise of 0.4% in its House Price Index; a little better than expected. Also better than expected was the Bureau of Labor Statistics report that the 199k Initial Jobless Claims last week was the lowest weekly number since late in 1969. As this reminds us again just how tight conditions are in the market for labor, we're also reminded that unemployment conditions are lagging indicators.

Some indicators of manufacturing's vitality were reported by the Federal Reserve Banks of Richmond and Kansas City this week and the news was modestly positive. The Richmond Fed Index stayed negative, but negative 2 is better than last month's negative 8. For Kansas City, a similar measure edged up to +5 from +3. In a private report from IHS Markit, its U.S. Purchasing Managers' Index rose to 54.9 from 53.8, and that was better than hoped for. A little hope might be needed for the Index of Leading Economic Indicators as the Conference Board reported that that peek into what awaits dimmed by 0.1%.

Against this week's backdrop of cussing and discussing the governmental shutdown, bond prices behaved sedately. Since markets reopened after Monday's holiday, the Ten-Year's yield has stayed within a narrow range between 2.70% and 2.75%; and that's where it is this morning.

The IRS doesn't know where 14,000 of its workers are this morning except for that they aren't at work. What the IRS doesn't know can't hurt you. 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 ²	S-Corp ³		Mty	3Mo	6mo	1Yr	2Yr
3mo	2.37	(0.03)	2.38	1.99	1.42	2yr	2.64	2.73	2.37	2.52	20.00	2Yr	1.94	1.94	1.94	-
6mo	2.50	0.00	2.50	2.19	1.63	3yr	2.63	2.68	2.39	2.55	27.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.59	0.00	2.58	2.40	1.77	5yr	2.70	2.66	2.55	2.71	42.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.60	(0.02)	2.56	2.67	2.09	7yr	2.86	2.70	2.73	2.91	57.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.58	(0.02)	2.55	2.76	2.20	10yr	3.11	2.77	3.12	3.32	69.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.59	(0.03)	2.58	2.85	2.42	15yr	3.27	2.86	3.70	3.93	99.00	February TBA MBS				
7yr	2.66	(0.03)	2.66	2.94	2.55	20yr	3.43	2.88	4.12	4.38	94.00	Cpn	15Yr -Yld/AL	30Yr -Yld/AL		
10yr	2.75	(0.03)	2.74	2.98	2.62	25yr	3.58	2.88	4.23	4.50	97.50	2.00	3.05	4.8y		
30yr	3.06	(0.04)	2.99	3.10	2.88	30yr		2.88	4.34	4.62	101.00	2.50	3.00	5.2y		
												3.00	3.07	5.4y	3.35	9.5y
												3.50	3.16	5.0y	3.54	8.9y
												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	--	2.50	2.00	1.50
Primary Discount	3.00	--	3.00	2.50	2.00
2ndary Discount	3.50	--	3.50	3.00	2.50
Prime Rate	5.50	--	5.50	5.00	4.50
Sec. O.N. Finance	2.41	--	2.41	1.90	--
1 Month LIBOR	2.50	--	2.51	2.07	1.56
3 Month LIBOR	2.76	--	2.81	2.33	1.75
6 Month LIBOR	2.85	--	2.89	2.52	1.94
1 Year LIBOR	3.03	0.02	3.05	2.81	2.23
6 Month CD	2.83	--	2.87	2.51	1.92
1 Year CMT	2.58	0.01	2.61	2.42	1.79
REPO O/N	2.42	--	2.51	1.96	1.46
REPO 1Wk	2.44	--	2.60	1.98	1.46
CoF Federal	2.236	--	2.188	1.924	1.551
11th D. CoF (Nov)	1.060	--	1.079	0.885	0.746

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.60	2.72	2.77
6mo	2.65	2.75	2.78
1yr	2.79	2.80	2.93
2yr	2.78	2.94	3.00
3yr	2.79	2.97	3.02
4yr	2.83	3.02	3.07
5yr	2.88	3.07	3.11
7yr	3.10	3.32	3.25
10yr	3.32	3.58	3.48
5yr Am	2.85		3.07
10yr Am	3.14		3.34

Fed Fund Futures		
Maturity	Rate	
Jan-19	2.400	
Feb-19	2.405	
Mar-19	2.410	
Apr-19	2.405	
May-19	2.420	
Jun-19	2.435	
Jul-19	2.455	
Aug-19	2.465	
Sep-19	2.470	
Oct-19	2.475	
Nov-19	2.475	

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
01/22	Existing Home Sales	Dec	5.24m	4.99m	5.32m	5.33m
01/23	MBA Mortgage Applications	1/18	--	-2.70%	13.50%	--
01/23	FHFA House Price Index MoM	Nov	0.30%	0.40%	0.30%	0.40%
01/24	Initial Jobless Claims	1/19	218k	199k	213k	212k
01/24	Continuing Claims	1/12	1730k	1713k	1737k	--
01/24	Bloomberg US Consumer Comfort	1/20	--	57.40	58.10	--
01/24	Markit US Manufacturing PMI	Jan P	53.50	54.90	53.80	--
01/24	Markit US Services PMI	Jan P	54.00	54.20	54.40	--
01/24	Markit US Composite PMI	Jan P	--	54.50	54.40	--
01/24	Leading Index	Dec	-0.10%	-0.10%	0.20%	--
01/28	Chicago Fed Nat Activity Index	Dec	--	--	22.00%	--
01/28	Advance Goods Trade Balance	Nov	-\$76.1b	--	-\$77.2b	-\$77.0b
01/28	New Home Sales	Nov	567k	--	544k	--
01/28	Factory Orders Ex Trans	Nov F	--	--	0.30%	--
01/28	Durables Ex Transportation	Nov F	--	--	-0.30%	--
01/28	Cap Goods Ship Nondef Ex Air	Nov F	--	--	-0.10%	--
01/28	Trade Balance	Nov	-\$54.0b	--	-\$55.5b	--
01/28	Retail Sales Ex Auto and Gas	Dec	0.40%	--	0.50%	--
01/28	Retail Sales Control Group	Dec	0.40%	--	0.90%	--
01/28	Business Inventories	Nov	0.30%	--	0.60%	--
01/28	Net Long-term TIC Flows	Nov	--	--	\$31.3b	--
01/28	Total Net TIC Flows	Nov	--	--	\$42.0b	--
01/28	Housing Starts	Dec	1253k	--	1256k	--
01/28	Building Permits	Dec	1290k	--	1328k	--
01/29	S&P CoreLogic CS 20-City YoY NSA	Nov	--	--	5.03%	--
01/29	S&P CoreLogic CS US HPI YoY NSA	Nov	--	--	5.48%	--
01/29	Conf. Board Consumer Confidence	Jan	124.00	--	128.10	--
01/29	Conf. Board Present Situation	Jan	--	--	171.60	--
01/30	ADP Employment Change	Jan	178k	--	271k	--
01/30	Core PCE QoQ	4Q A	--	--	1.60%	--
01/30	Pending Home Sales NSA YoY	Dec	--	--	-7.70%	--
01/30	FOMC Rate Decision (Upper Bound)	1/30	2.50%	--	2.50%	--
01/30	FOMC Rate Decision (Lower Bound)	1/30	2.25%	--	2.25%	--
01/31	Challenger Job Cuts YoY	Jan	--	--	35.30%	--
01/31	Employment Cost Index	4Q	0.70%	--	0.80%	--
01/31	PCE Deflator YoY	Dec	1.70%	--	1.80%	--
01/31	PCE Core YoY	Dec	1.90%	--	1.90%	--
01/31	Chicago Purchasing Manager	Jan	62.0	--	65.4	--
02/01	Change in Nonfarm Payrolls	Jan	160k	--	312k	--
02/01	Two-Month Payroll Net Revision	Jan	--	--	58k	--
02/01	Change in Private Payrolls	Jan	168k	--	301k	--
02/01	Change in Manufact. Payrolls	Jan	17k	--	32k	--
02/01	Unemployment Rate	Jan	3.90%	--	3.90%	--
02/01	Average Hourly Earnings YoY	Jan	3.20%	--	3.20%	--
02/01	Average Weekly Hours All Employees	Jan	34.50	--	34.50	--
02/01	Labor Force Participation Rate	Jan	--	--	63.10%	--
02/01	Underemployment Rate	Jan	--	--	7.60%	--

MBS Prepayments ⁴						
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	10.2	13.0	14.4	13.1	13.0
FH/FN 20y	0.1	6.8	7.4	9.5	12.4	11.1
FH/FN 30y	5.0	5.6	6.2	7.4	11.6	11.8
GN 30y	8.7	6.5	8.9	10.8	14.2	14.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	109.58	(0.20)	110.31	110.98	109.41
Euro	1.14	0.00	1.14	1.17	1.24
Dollar Index	95.90	(0.44)	96.55	94.23	89.39
Major Stock Indices					
Dow Jones	24,770	400	21,792	25,414	26,393
S&P 500	2,665.9	29.9	2,351.1	2,846.1	2,839.3
NASDAQ	7,151.6	67	6,192.9	7,932.2	7,411.2
Commodities					
Gold	1,298.9	6.6	1,267.5	1,231.8	1,362.9
Crude Oil	53.48	1.41	42.53	69.30	65.51
Natural Gas	3.13	(0.28)	3.47	2.78	3.45
Wheat	522.0	4.3	516.5	542.8	434.5
Corn	377.5	-2.5	377.8	359.3	355.3

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

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The data provided in these reports is for informational purposes only and is intended solely for your private use. Information herein is believed to be reliable but The Baker Group LP does not guarantee its completeness or accuracy. Opinions constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 01/25/2019 12:03PM