

Baker Market Update: Week in Review

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The caged bird sings with a fearful trill of things unknown but longed for still

And his tune is heard on the distant hill for the caged bird sings of freedom – from Caged Bird

By Maya Angelou

Jerome Powell has figured out why the caged bird sings. Interest rates are high enough; maybe too high. And the fearful trill of the doves on his committee is finally being heard. Until this morning's Jobs report, the week's big news centered around the FOMC's first meeting of the year. After December's fourth rate hike of 2018, ill-advised in the minds of many, investors were looking for signs that our central bankers were, as advertised, actually being driven by the data. They got more than hints. Patience and flexibility were stressed as guiding principals of future policy adjustments in both rate decisions and balance sheet diminution while the measurable probabilities of further rate hikes have flown the coop.

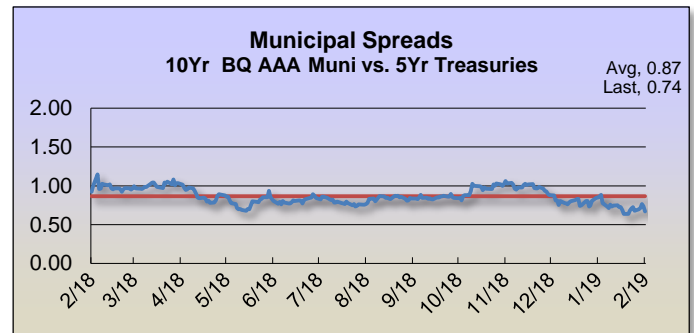
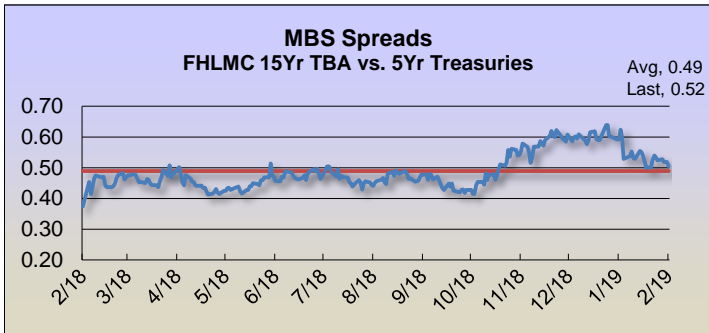
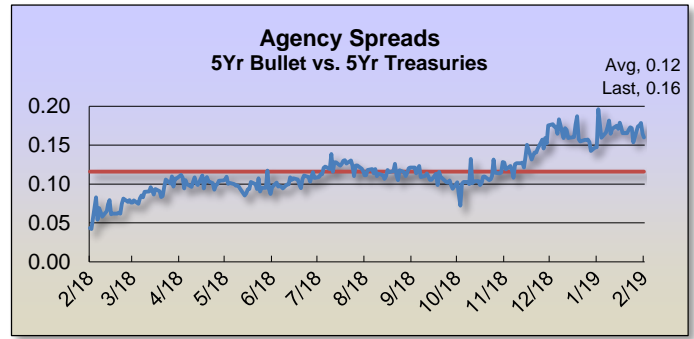
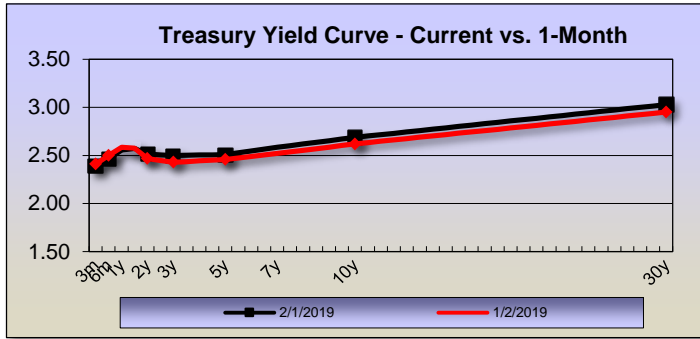
And this morning, a flock of statistics from the Labor Department is telling investors that the Unemployment Rate has edged up to 4% from 3.9% despite the much larger-than-expected addition of 304k to Non-Farm Payrolls. The less good news is that last month's gain of 312k suffered a 90k downward revision. Wage earners are flying a little less high as the year-over-year growth rate in Average Hourly Earnings slipped to 3.2% from 3.3%.

Through the magic of annual, baseline revisions, we learned from the Bureau of Labor Statistics (BLS) that the Labor Force Participation Rate rose to 63.2% from 63.1% despite an 11k decline in the Labor Force and an increase of 241k in the number of Unemployed Persons along with a 51k addition to the number of Discouraged Workers. How does that work? Well, you may not have noticed any change in the crowds at the mall, but, according to the BLS, the non-institutionalized Civilian Population declined by 649k. Flap your wings if you think that really happened. Something more believable might be found in the Underemployment Rate (U6). That measure attempts to account for part-time workers and those marginally attached to the Labor Force. The U6 took wing to 8.1% from 7.6%. That's almost half-a-percent in just one month and the highest it's been since last February.

There's been a flap about Consumer Confidence lately because *its* plunge *has* really happened. The Conference Board's yardstick of that measure took a dive to 120.2 from 126.2. More significantly, the Expectations sub-index nearly fell out of the sky with a drop to 87.3 from 97.7. From the University of Michigan, we learned that its Index of Consumer Sentiment, already losing altitude, lost a little more; well, a lot more, as December's 98.3 became January's 91.2. Sounds like there could be a fox in the henhouse. Better news came out for the manufacturing sector when the Chicago Fed reported its National Activity Index moved up slightly to 0.27 from 0.21. The Dallas Fed followed that up with an even greater gain in its Manufacturing Index. The previous, contractionary value of -5.1 was only expected to become slightly less contractionary at -2.7. Instead, it soared back into the positive with a value of plus 1.0.

The value of homes, or at least their prices according to the Case-Shiller 20 City House Price Index, rose by 4.7% year-over-year in November and that's the slowest growth rate in almost four years. The housing market could use a lift, but it's not going to get it from last week's 3% drop in Mortgage Applications and a further 2.2% slippage in Pending Home Sales. On the sunnier side of the street, New Home Sales rose in November by a larger than expected 657k. With the Temporary Partial Government Reopening (TPGR) now in place, a backlog of data has become un-backlogged. We learned that the Institute of Supply Management (ISM) Manufacturing Index improved its outlook to 56.6 from 54.3. That's good news, particularly with the New Orders sub-index taking to flight with a gain from 51.3 to 58.2.

Tomorrow is Groundhog's Day and while Punxsutawney Phil will be freed from his cage, it appears that the Fed's new outlook sees that the economy's animal spirits have again become restrained. Meanwhile, monetary doves have slipped the surly bonds of earth and left the hawks singin' the blues. Enjoy your Super Bowl 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	2.39	0.01	2.36	2.02	1.48	2yr	2.56	2.65	2.31	2.46	20.00	2Yr	1.94	1.94	1.94	-
6mo	2.46	(0.04)	2.48	2.21	1.65	3yr	2.56	2.60	2.34	2.49	26.67	3Yr	2.10	2.11	2.11	2.10
1yr	2.56	(0.03)	2.60	2.43	1.89	5yr	2.63	2.59	2.46	2.62	40.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.51	(0.09)	2.49	2.68	2.16	7yr	2.81	2.63	2.65	2.82	55.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.50	(0.09)	2.46	2.78	2.30	10yr	3.05	2.71	3.04	3.23	67.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.51	(0.09)	2.51	2.88	2.57	15yr	3.23	2.80	3.60	3.83	97.00	March TBA MBS				
7yr	2.59	(0.09)	2.59	2.96	2.73	20yr	3.41	2.83	4.00	4.26	92.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.69	(0.07)	2.69	3.01	2.79	25yr	3.58	2.84	4.12	4.38	95.50	2.00	3.02	4.8y		
30yr	3.03	(0.04)	3.02	3.13	3.02	30yr		2.83	4.23	4.50	99.00	2.50	2.86	5.1y		
												3.00	2.99	5.2y	3.28	9.3y
												3.50	3.07	4.7y	3.46	8.6y
												4.00			3.58	6.5y
												4.50			3.75	6.3y

* 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	2.58	0.17	3.00	1.93	--
1 Month LIBOR	2.51	--	2.52	2.08	1.57
3 Month LIBOR	2.74	--	2.80	2.34	1.77
6 Month LIBOR	2.81	--	2.87	2.53	1.97
1 Year LIBOR	3.02	--	3.01	2.82	2.26
6 Month CD	2.78	--	2.82	2.52	1.96
1 Year CMT	2.55	--	2.63	2.44	1.90
REPO O/N	2.53	0.09	6.13	2.02	1.42
REPO 1Wk	2.44	--	2.47	1.98	1.46
CoF Federal	2.236	--	2.188	1.924	1.551
11th D. CoF (Dec)	1.056	--	1.060	0.934	0.753

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	2.60	2.69	2.76
6mo	2.64	2.71	2.77
1yr	2.70	2.73	2.88
2yr	2.68	2.86	2.90
3yr	2.67	2.86	2.90
4yr	2.70	2.91	2.94
5yr	2.74	2.96	2.97
7yr	2.96	3.22	3.12
10yr	3.22	3.50	3.37
5yr Am	2.72		2.94
10yr Am	3.00		3.22

Fed Fund Futures	
Maturity	Rate
Feb-19	2.397
Mar-19	2.400
Apr-19	2.400
May-19	2.395
Jun-19	2.400
Jul-19	2.400
Aug-19	2.400
Sep-19	2.400
Oct-19	2.400
Nov-19	2.395
Dec-19	2.380

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
01/29	Conf. Board Consumer Confidence	Jan	124.00	120.20	128.10	126.60
01/29	Conf. Board Present Situation	Jan	--	169.60	171.60	169.90
01/30	MBA Mortgage Applications	1/25	--	-3.00%	-2.70%	--
01/30	ADP Employment Change	Jan	181k	213k	274k	263k
01/30	Pending Home Sales NSA YoY	Dec	-7.00%	-9.50%	-7.70%	-7.80%
01/30	FOMC Rate Decision (Upper Bound)	1/30	2.50%	2.50%	2.50%	--
01/30	FOMC Rate Decision (Lower Bound)	1/30	2.25%	2.25%	2.25%	--
01/30	Interest Rate on Excess Reserves	1/31	2.40%	2.40%	2.40%	--
01/31	Challenger Job Cuts YoY	Jan	--	18.70%	35.30%	--
01/31	Employment Cost Index	4Q	0.80%	0.70%	0.80%	--
01/31	Initial Jobless Claims	1/26	215k	253k	499k	200k
01/31	Continuing Claims	1/19	1721k	1782k	1713k	--
01/31	Chicago Purchasing Manager	Jan	61.50	56.70	65.40	63.80
01/31	Total Net TIC Flows	Nov	--	\$31.0b	\$42.0b	\$46.8b
01/31	Net Long-term TIC Flows	Nov	--	\$37.6b	\$31.3b	\$31.9b
02/01	Change in Nonfarm Payrolls	Jan	165k	304k	312k	222k
02/01	Change in Private Payrolls	Jan	175k	296k	301k	206k
02/01	Change in Manufact. Payrolls	Jan	19k	13k	32k	20k
02/01	Unemployment Rate	Jan	3.90%	4.00%	3.90%	--
02/01	Average Hourly Earnings YoY	Jan	3.20%	3.20%	3.20%	3.30%
02/01	Average Weekly Hours All Employees	Jan	34.50	34.50	34.50	--
02/01	Labor Force Participation Rate	Jan	63.00%	63.20%	63.10%	--
02/01	Underemployment Rate	Jan	--	8.10%	7.60%	--
02/01	Markit US Manufacturing PMI	Jan F	54.90	54.90	54.90	--
02/01	ISM Manufacturing	Jan	54.00	56.60	54.10	54.30
02/01	ISM Employment	Jan	--	55.50	56.20	56.00
02/01	ISM Prices Paid	Jan	54.30	49.60	54.90	--
02/01	ISM New Orders	Jan	--	58.20	51.10	51.30
02/01	U. of Mich. Sentiment	Jan F	90.70	91.20	90.70	--
02/01	U. of Mich. Current Conditions	Jan F	--	108.80	110.00	--
02/01	U. of Mich. 1 Yr Inflation	Jan F	--	2.70%	2.70%	--
02/04	Personal Income	Dec	0.50%	--	0.20%	--
02/04	Real Personal Spending	Dec	0.20%	--	0.30%	--
02/04	PCE Deflator YoY	Dec	1.70%	--	1.80%	--
02/04	PCE Core YoY	Dec	1.90%	--	1.90%	--
02/04	GDP Annualized QoQ	4Q A	2.60%	--	3.40%	--
02/04	GDP Price Index	4Q A	1.70%	--	1.80%	--
02/04	Core PCE QoQ	4Q A	1.60%	--	1.60%	--
02/05	Markit US Composite PMI	Jan F	--	--	54.50	--
02/05	Building Permits	Dec	1290k	--	1328k	1322k
02/05	Housing Starts	Dec	1253k	--	1256k	--
02/05	Advance Goods Trade Balance	Dec	-\$76.3b	--	--	--
02/05	Durables Ex Transportation	Dec P	0.20%	--	--	--
02/05	Cap Goods Ship Nondef Ex Air	Dec P	0.20%	--	--	--
02/05	Factory Orders Ex Trans	Dec F	--	--	--	--
02/06	Nonfarm Productivity	4Q P	1.70%	--	2.30%	--
02/06	Unit Labor Costs	4Q P	1.70%	--	0.90%	--

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	12.4	12.8	19.4	12.8	25.9
FH/FN 15y	7.7	7.6	8.3	11.0	12.4	20.8
GN 15y	6.4	10.3	13.0	14.4	13.1	13.1
FH/FN 20y	0.1	6.8	7.8	9.7	12.5	11.4
FH/FN 30y	5.2	5.7	6.4	7.5	11.6	12.1
GN 30y	8.7	6.9	8.9	11.2	14.5	14.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	109.40	(0.15)	109.74	111.73	109.40
Euro	1.15	0.01	1.15	1.17	1.25
Dollar Index	95.58	(0.21)	96.17	94.66	88.67
Major Stock Indices					
Dow Jones	25,111	374	23,327	25,334	26,187
S&P 500	2,714.2	49.5	2,506.9	2,813.4	2,822.0
NASDAQ	7,278.7	114	6,635.3	7,707.3	7,385.9
Commodities					
Gold	1,316.3	18.2	1,281.3	1,217.9	1,344.3
Crude Oil	54.41	0.72	45.41	67.66	65.80
Natural Gas	2.79	(0.39)	2.94	2.76	2.86
Wheat	521.8	1.8	503.3	558.3	451.0
Corn	379.8	-0.5	375.0	365.0	361.8

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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