

## Baker Market Update: Week in Review

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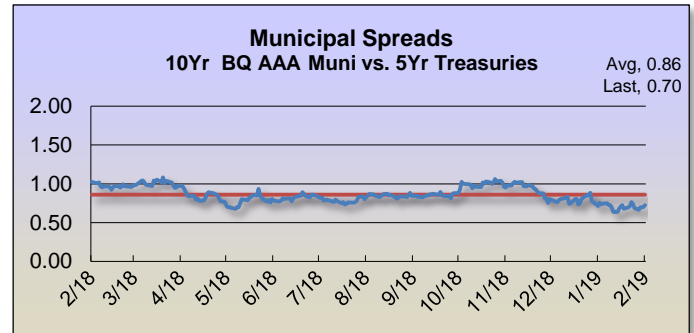
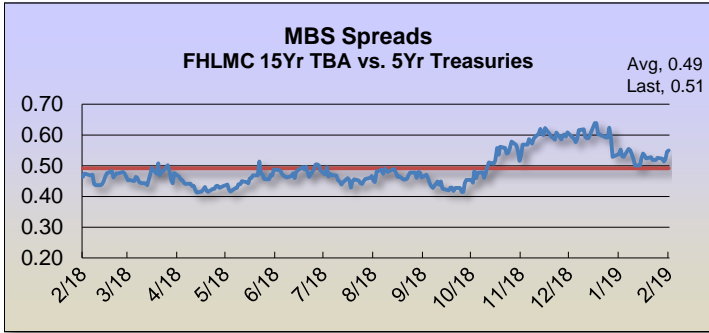
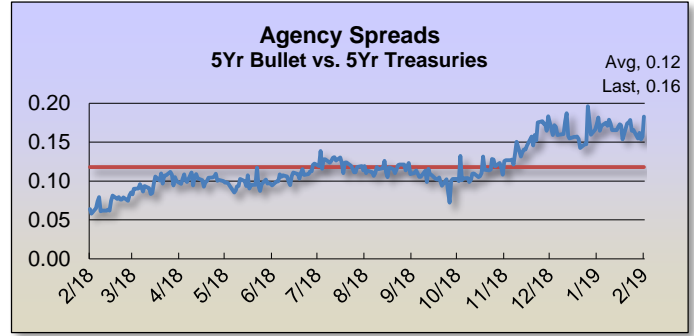
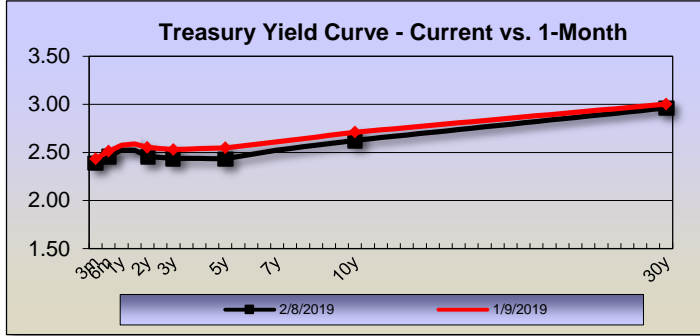


With apologies to both William Shakespeare and John Steinbeck, *now* is the winter of our discontent; at least our economic discontent. Earlier this week, Janet Yellen mused that the central bank's next rate move could well be a cut and not a hike. Jim Bullard, President of the St. Louis Fed, told reporters yesterday that the Fed's last rate hike may have pushed the policy rate into "a restrictive setting" and cautioned "We are putting downward pressure rather than upward pressure on inflation." Jerome, are you listening?

Investors who *have* been listening also heard a serious downgrade to the prospects of those with whom we share wintertime in the northern hemisphere. The European Commission sent a shiver down the spines of many when it announced it was reducing its 2019 growth forecast for the 28-member European Union to just 1.5% from 1.9%. For the 19 nations that pay their bills in Euros, the report was even more chilling with only 1.3% now the official expectation. And despite the fact that it's summertime in the-land-down-under, the Reserve Bank of Australia has shifted its official policy to "neutral" and has put the likelihood of its next rate hike under the table in the face of recently disclosed and recently diminished forecasts for both Aussie inflation and Aussie growth. The good news is, one can still get a bloomin' onion at the local Outback.

Also good news, maybe, is that at least some progress is being made toward working off the backlog of delayed data resulting from the temporary, partial government shutdown. Lawmakers are currently at work trying to figure out which will be more temporary; the shutdown or the re-opening. In the meantime, we probably could have carried on, at least temporarily, without knowing that Factory Orders fell by 0.6% in November and that the 0.7% rise in Durable Goods orders was less than half of what it was "supposed" to be. As long as we're catching up, the winter's malaise seems to have caught up with Non-defense Capital Goods Orders as they fell by 0.6%. In light of that, the report from Markit Services that its non-Manufacturing Purchasing Managers' Index managed to remain unchanged at 54.2 seems positively positive. For the Institute of Supply Management its report was less so as its Services Index fell to 56.7 from 58. Still in expansionary territory, but slipping. Like Bambi on a frozen pond.

Now, what about our trade issues with those on the other side of the Pacific pond? Freezing or thawing? Hard to say, but according to the previously-temporarily-shut-down- Census Bureau, our nation's Trade Balance with others narrowed, for a change, to a \$49.3B shortfall from \$54B. If one finds that surprising, how about this: the Federal Reserve reported that Consumer Credit in America only grew by \$16.5B in December after November's \$22.4B. So, American consumers may be borrowing less, but not to worry, your government is borrowing more. The Treasury held auctions this week for new and larger refundings of 3's, 10's, and 30's. Investor demand for the short and long of it was relatively strong, but the Ten-Year got a little sloppy. Does the Treasury care? That's more or less a rhetorical question, but no, the Treasury doesn't care. It will get the nation's debt sold no matter the cost. For those keeping track of such things, Gross Federal Debt is now greater than Gross Domestic Product, but no one really likes to talk about that. Especially not when they can talk about a Green New Deal instead. With apologies to Kermit the Frog, it's not easy being green, nor is it cheap. Bundle up and be careful out there. We'll see you next week.



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	0.00	2.44	2.05	1.54	2yr	2.50	2.61	2.27	2.41	20.00	2Yr	1.94	1.94	1.94	-
6mo	2.46	0.00	2.54	2.23	1.73	3yr	2.50	2.55	2.31	2.46	26.33	3Yr	2.10	2.11	2.11	2.10
1yr	2.52	(0.04)	2.61	2.42	1.89	5yr	2.56	2.53	2.41	2.56	39.00	5Yr	2.19	2.22	2.24	2.24
2yr	2.46	(0.05)	2.59	2.67	2.10	7yr	2.74	2.57	2.60	2.77	53.00	7Yr	2.42	2.47	2.52	2.53
3yr	2.44	(0.05)	2.57	2.76	2.25	10yr	3.00	2.66	3.00	3.19	66.00	10Yr	2.57	2.62	2.69	2.72
5yr	2.44	(0.07)	2.58	2.83	2.54	15yr	3.16	2.76	3.57	3.80	96.00	March TBA MBS				
7yr	2.52	(0.06)	2.63	2.91	2.73	20yr	3.32	2.79	3.98	4.23	89.00	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	2.63	(0.06)	2.73	2.96	2.82	25yr	3.48	2.80	4.09	4.35	92.50	2.00	2.90	4.8y		
30yr	2.96	(0.06)	3.01	3.11	3.13	30yr	3.48	2.80	4.20	4.47	96.00	2.50	2.86	5.1y		
												3.00	2.97	5.3y	3.25	9.3y
												3.50	3.07	4.8y	3.44	8.8y
												4.00			3.57	6.6y
												4.50			3.77	6.4y

\* 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	2.38	(0.20)	2.41	1.87	--
1 Month LIBOR	2.51	--	2.52	2.08	1.58
3 Month LIBOR	2.74	--	2.80	2.34	1.79
6 Month LIBOR	2.78	--	2.86	2.52	1.99
1 Year LIBOR	2.96	--	2.96	2.83	2.28
6 Month CD	2.72	--	2.84	2.52	2.01
1 Year CMT	2.55	--	2.58	2.45	1.91
REPO O/N	2.45	--	2.53	1.96	1.39
REPO 1Wk	2.44	--	2.44	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	2.58	2.69	2.74
6mo	2.64	2.70	2.76
1yr	2.69	2.71	2.87
2yr	2.66	2.84	2.88
3yr	2.65	2.85	2.88
4yr	2.68	2.89	2.93
5yr	2.72	2.94	2.96
7yr	2.96	3.21	3.12
10yr	3.20	3.47	3.35
5yr Am	2.71		2.93
10yr Am	2.99		3.21

Fed Fund Futures	
Maturity	Rate
Feb-19	2.400
Mar-19	2.395
Apr-19	2.395
May-19	2.385
Jun-19	2.385
Jul-19	2.380
Aug-19	2.385
Sep-19	2.380
Oct-19	2.375
Nov-19	2.370
Dec-19	2.350

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
02/04	Factory Orders	Nov	0.30%	-0.60%	-2.10%	--
02/04	Factory Orders Ex Trans	Nov	--	-1.30%	0.30%	0.20%
02/04	Durable Goods Orders	Nov F	1.50%	0.70%	0.80%	--
02/04	Durables Ex Transportation	Nov F	0.00%	-0.40%	-0.30%	--
02/04	Cap Goods Orders Nondef Ex Air	Nov F	-0.10%	-0.60%	-0.60%	--
02/04	Cap Goods Ship Nondef Ex Air	Nov F	0.00%	-0.20%	-0.10%	--
02/05	Markit US Services PMI	Jan F	54.20	54.20	54.20	--
02/05	Markit US Composite PMI	Jan F	--	54.40	54.50	--
02/05	ISM Non-Manufacturing Index	Jan	57.10	56.70	57.60	58.00
02/06	Trade Balance	Nov	-\$54.0b	-\$49.3b	-\$55.5b	-\$55.7b
02/07	Initial Jobless Claims	2/2	221k	234k	253k	--
02/07	Continuing Claims	1/26	1733k	1736k	1782k	1778k
02/07	Bloomberg Consumer Comfort	2/3	--	58.20	57.40	--
02/07	Consumer Credit	Dec	\$17.000b	\$16.554b	\$22.149b	\$22.408b
02/11	Mortgage Delinquencies	4Q	--	--	4.47%	--
02/11	MBA Mortgage Foreclosures	4Q	--	--	0.99%	--
02/12	NFIB Small Business Optimism	Jan	103.00	--	104.40	104.40
02/12	JOLTS Job Openings	Dec	--	--	6888.00	--
02/13	MBA Mortgage Applications	2/8	--	--	-2.50%	--
02/13	CPI MoM	Jan	0.10%	--	-0.10%	--
02/13	CPI Ex Food and Energy MoM	Jan	0.20%	--	0.20%	--
02/13	CPI YoY	Jan	1.50%	--	1.90%	--
02/13	CPI Ex Food and Energy YoY	Jan	2.10%	--	2.20%	--
02/13	CPI Core Index SA	Jan	--	--	260.03	--
02/13	CPI Index NSA	Jan	251.62	--	251.23	--
02/13	Real Avg Weekly Earnings YoY	Jan	--	--	1.20%	1.40%
02/13	Real Avg Hourly Earning YoY	Jan	--	--	1.10%	1.30%
02/14	PPI Final Demand YoY	Jan	2.10%	--	2.50%	--
02/14	PPI Ex Food and Energy YoY	Jan	2.50%	--	2.70%	--
02/14	PPI Ex Food, Energy, Trade YoY	Jan	--	--	2.80%	--
02/14	Initial Jobless Claims	2/9	225k	--	234k	--
02/14	Continuing Claims	2/2	--	--	1736k	--
02/14	Retail Sales Ex Auto and Gas	Dec	0.40%	--	0.50%	--
02/14	Retail Sales Control Group	Dec	0.40%	--	0.90%	--
02/14	Bloomberg Consumer Comfort	2/10	--	--	58.20	--
02/14	Business Inventories	Nov	0.30%	--	0.60%	--
02/15	Empire Manufacturing	Feb	8.00	--	3.90	--
02/15	Import Price Index YoY	Jan	--	--	-0.60%	--
02/15	Export Price Index YoY	Jan	--	--	1.10%	--
02/15	Industrial Production MoM	Jan	0.10%	--	0.30%	--
02/15	Capacity Utilization	Jan	78.80%	--	78.70%	--
02/15	Manufacturing (SIC) Production	Jan	0.20%	--	1.10%	--
02/15	U. of Mich. Sentiment	Feb P	94.00	--	91.20	--
02/15	U. of Mich. Current Conditions	Feb P	--	--	108.80	--
02/15	U. of Mich. 1 Yr Inflation	Feb P	--	--	2.70%	--
02/15	Net Long-term TIC Flows	Dec	--	--	\$37.6b	--
02/15	Total Net TIC Flows	Dec	--	--	\$31.0b	--

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	11.6	13.4	14.2	15.5	35.1
FH/FN 15y	5.2	5.4	6.3	7.8	12.8	14.4
GN 15y	5.9	9.2	10.8	11.8	11.4	11.2
FH/FN 20y		4.9	6.0	6.8	7.5	8.8
FH/FN 30y	2.0	4.2	3.9	3.4	4.7	7.9
GN 30y	8.4	7.7	10.4	10.8	10.3	10.8
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	11.1	12.4	12.8	19.4	12.6	25.8
FH/FN 15y	7.6	7.7	8.1	10.7	12.4	20.8
GN 15y	6.0	10.3	13.0	14.4	13.1	13.1
FH/FN 20y	0.1	6.8	7.7	9.6	12.4	11.3
FH/FN 30y	5.1	5.6	6.4	7.4	11.6	12.0
GN 30y	7.9	6.8	8.8	11.0	14.3	14.3

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	109.76	0.26	108.75	110.98	108.74
Euro	1.13	(0.01)	1.14	1.16	1.22
Dollar Index	96.58	1.00	95.90	95.09	90.23
<b>Major Stock Indices</b>					
Dow Jones	24,975	(89)	23,787	25,584	23,860
S&P 500	2,686.3	(20.2)	2,574.4	2,857.7	2,581.0
NASDAQ	7,252.0	(12)	6,897.0	7,888.3	6,777.2
<b>Commodities</b>					
Gold	1,312.8	(4.1)	1,285.9	1,212.6	1,316.9
Crude Oil	52.60	(2.66)	49.78	66.94	61.15
Natural Gas	2.57	(0.16)	2.97	2.95	2.70
Wheat	519.8	-4.5	517.8	570.0	456.3
Corn	378.5	0.3	380.0	371.3	365.8

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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