# Baker Market Update

The Baker Group

October 21, 2016

## Week in Review

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Chicago may hold a 3-2 advantage over Los Angeles in the National League Championship Series, but that hasn't prevented some fans from making preemptive charges of the games being rigged if the Cubs don't make it to the World Series. No one wants any outside interference with the national pastime. While Americans were preoccupied with football season, baseball season, and Presidential election season, the European Central Bank (ECB) was busy trying to keep the fragile economy of the European Union afloat at this week's policy meeting. Disappointed investors had hoped for *clarity* from ECB President Mario Draghi on the possible extension and maybe expansion of the current bond-buying program. Those investors seem to have forgotten that they're dealing with a Central Banker.

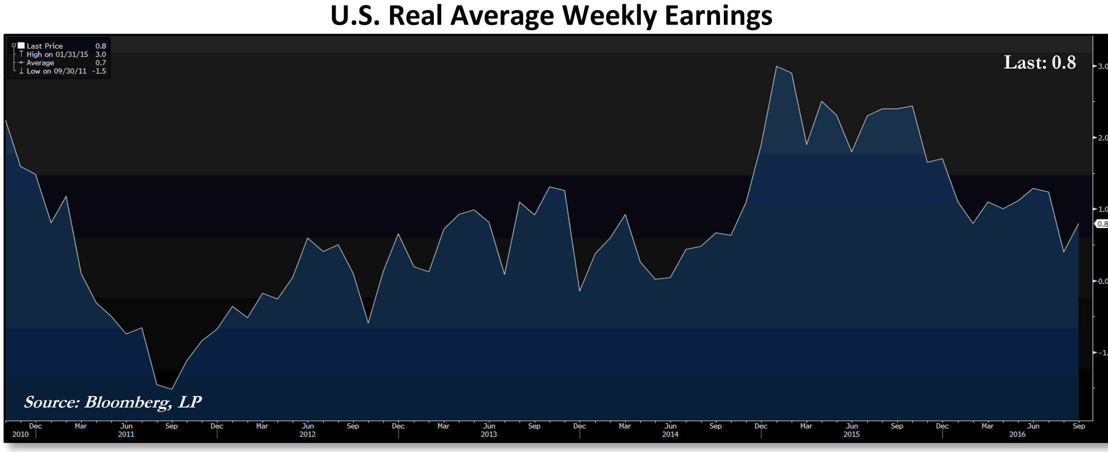
They may also have forgotten what inflation looks like, but Mr. Draghi maintains that his 2% goal for that measure should be reached by late 2018 or early 2019. Right. Until then, he can come to the U.S. and see for himself that our Consumer Price Index (CPI) rose by 0.3% in September, taking the year-over-year rate to 1.5%. Without food & energy, the "core" rate rose by 0.1% for the month and stands at 2.2% y-o-y. What a strange world it is when having more inflation than Europe makes us happy.

No happiness for U.S. homebuilders last month as Housing Starts fell by a whopping 9.0%! Maybe the weather was just too nice to be building houses, but, maybe next month will look better with a 6.3% rise in Building Permits. Existing Home *Sales* rose by 3.2% last month; way more than expected. For the making of things that aren't houses, the Empire Manufacturing Index came in at a disappointingly sluggish level of *negative 6.8.* The meager 0.1% rise in Industrial Production and the similarly puny (0.1%) rise in Capacity Utilization do not bode well, nor have they, for the manufacturing sector. On top of that, the Philadelphia Fed Business Outlook Index fell to 9.7 from 12.8. On the plus side, kind of, Real Average Weekly Earnings grew by 0.8% last month.

This week's published data, has done little to either support or undermine the prospect of a December change to monetary policy. The probability implied by Fed Funds Futures, though, gives that a slightly better than two-in-three chance of occurring. The Treasury market has been little affected by either this week's economic news nor the growing possibility of a rate hike. No leaks from the Fed!

For next week, market participants will be anxious to see what the recently ended third quarter looked like. The Bureau of Economic Analysis is expected to report that GDP grew by 2.5% in Q3, or almost double that of Q2. We hope they're right. As for the Cubs, there's one good way to put an end to any rumors of game-rigging; hit 'em where they ain't!

**U.S. Real Average Weekly Earnings**




While recent gains in hourly earnings have been encouraging, this inflation adjusted measure of weekly compensation for all employees, while growing, doesn't paint as bright a picture as most would like.

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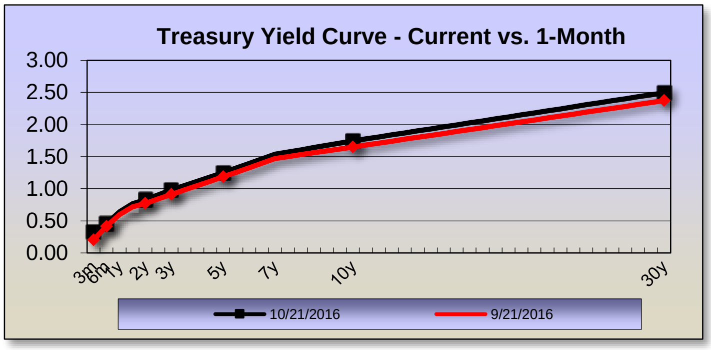


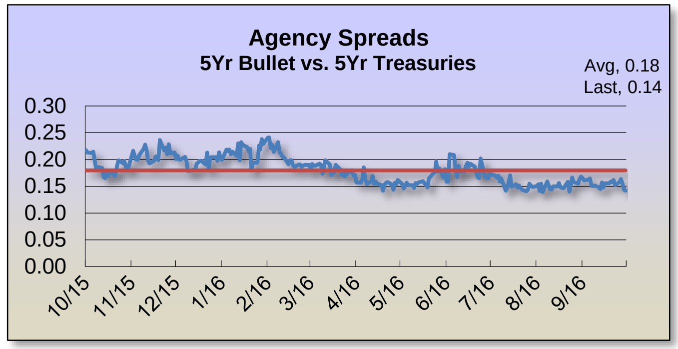


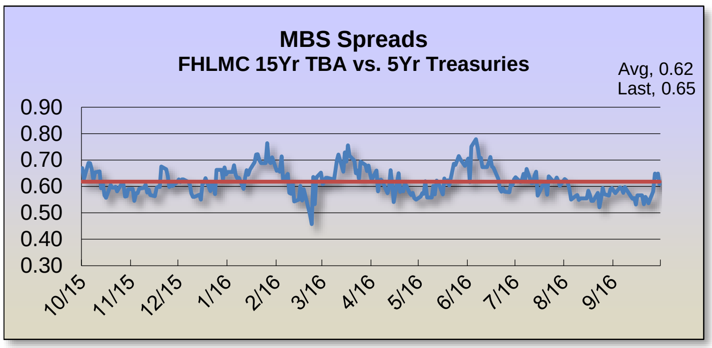


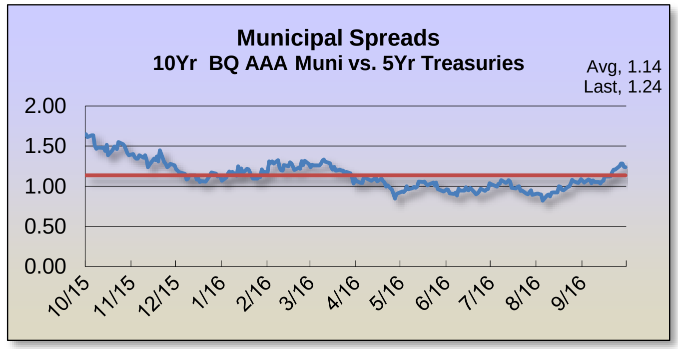


## Treasury Market -- Historical

| Maty | Current | 1Wk Change | Historical 1 Mo | 6 Mo | 1 Yr |
|---|---|---|---|---|---|
| 3mo | 0.32 | 0.03 | 0.21 | 0.23 | 0.00 |
| 6mo | 0.46 | 0.01 | 0.42 | 0.36 | 0.11 |
| 1yr | 0.64 | (0.02) | 0.60 | 0.53 | 0.22 |
| 2yr | 0.83 | (0.01) | 0.78 | 0.81 | 0.62 |
| 3yr | 0.98 | (0.02) | 0.91 | 0.99 | 0.87 |
| 5yr | 1.25 | (0.03) | 1.19 | 1.33 | 1.35 |
| 7yr | 1.54 | (0.05) | 1.47 | 1.64 | 1.73 |
| 10yr | 1.75 | (0.05) | 1.65 | 1.86 | 2.02 |
| 30yr | 2.50 | (0.06) | 2.37 | 2.68 | 2.87 |

** Interpolated*

## Fixed Rate Market

| Maty /AL | N-Call Agency | US Swap | AAA BQ Muni C-Corp[2] | S-Corp[3] | Tax Muni |
|---|---|---|---|---|---|
| 2yr | 0.91 | 1.07 | 1.19 | 1.27 | 1.03 |
| 3yr | 1.08 | 1.14 | 1.32 | 1.40 | 1.23 |
| 5yr | 1.43 | 1.28 | 1.57 | 1.67 | 1.64 |
| 7yr | 1.68 | 1.42 | 1.88 | 2.00 | 1.95 |
| 10yr | 2.08 | 1.59 | 2.41 | 2.56 | 2.59 |
| 15yr | 2.48 | 1.78 | 3.01 | 3.20 | 3.12 |
| 20yr | 2.89 | 1.88 | 3.35 | 3.56 | 3.36 |
| 25yr | 3.30 | 1.92 | 3.45 | 3.67 | 3.40 |
| 30yr | | 1.94 | 3.56 | 3.78 | 3.44 |

| Mty | Agency Calls - Euro 3Mo | 6mo | 1Yr | 2Yr |
|---|---|---|---|---|
| 2Yr | 1.00 | 1.00 | 0.98 | - |
| 3Yr | 1.16 | 1.17 | 1.16 | 1.08 |
| 5Yr | 1.39 | 1.43 | 1.45 | 1.39 |
| 7Yr | 1.58 | 1.64 | 1.68 | 1.65 |
| 10Yr | 1.79 | 1.87 | 1.93 | 1.93 |

### November TBA MBS

| Cpn | 15Yr -Yld/AL | | 30Yr -Yld/AL | |
|---|---|---|---|---|
| 2.00 | 1.85 | 5.3y | | |
| 2.50 | 1.79 | 4.9y | | |
| 3.00 | 1.74 | 4.1y | 2.36 | 6.1y |
| 3.50 | 1.75 | 3.4y | 2.28 | 4.9y |
| 4.00 | | | 1.90 | 3.8y |
| 4.50 | | | 1.63 | 3.5y |

## Key Market Indices

| Index | Current | 1Wk Change | Historical 1 Mo | 6 Mo | 1 Yr |
|---|---|---|---|---|---|
| Fed Funds | **0.50** | -- | 0.50 | 0.50 | 0.25 |
| Primary Discount | **1.00** | -- | 1.00 | 1.00 | 0.75 |
| 2ndary Discount | **1.50** | -- | 1.50 | 1.50 | 1.25 |
| Prime Rate | **3.50** | -- | 3.50 | 3.50 | 3.25 |
| 1 Month LIBOR | **0.52** | -- | 0.54 | 0.44 | 0.20 |
| 3 Month LIBOR | **0.88** | -- | 0.87 | 0.64 | 0.32 |
| 6 Month LIBOR | **1.26** | -- | 1.26 | 0.90 | 0.52 |
| 1 Year LIBOR | **1.57** | -- | 1.56 | 1.22 | 0.83 |
| 6 Month CD | **1.32** | 0.10 | 1.32 | 0.90 | 0.60 |
| 1 Year CMT | **0.66** | -- | 0.61 | 0.54 | 0.23 |
| REPO O/N | **0.28** | -- | 0.43 | 0.33 | 0.04 |
| REPO 1Wk | **0.25** | 0.01 | 0.41 | 0.54 | 0.26 |
| CoF Federal | **1.093** | -- | 1.092 | 1.098 | 0.979 |
| 11th D. CoF (Aug) | **0.703** | -- | 0.693 | 0.670 | 0.639 |

## FHLB Fixed Advance Rates

| Maturity | Chicago | Boston | Dallas | Topeka |
|---|---|---|---|---|
| 3mo | 0.47 | 0.66 | 0.56 | 0.66 |
| 6mo | 0.60 | 0.76 | 0.67 | 0.75 |
| 1yr | 0.88 | 0.93 | 0.90 | 0.99 |
| 2yr | 1.05 | 1.27 | 1.08 | 1.24 |
| 3yr | 1.24 | 1.42 | 1.28 | 1.39 |
| 4yr | 1.40 | 1.59 | 1.44 | 1.57 |
| 5yr | 1.55 | 1.76 | 1.61 | 1.70 |
| 7yr | 1.83 | 2.04 | 1.88 | 1.90 |
| 10yr | 2.21 | 2.46 | 2.27 | 2.29 |
| 5yr Am | 1.32 | | 1.39 | 1.56 |
| 10yr Am | 1.83 | | 2.33 | 2.04 |

## Fed Fund Futures

| Maturity | Rate |
|---|---|
| Oct-16 | 0.395 |
| Nov-16 | 0.415 |
| Dec-16 | 0.500 |
| Jan-17 | 0.570 |
| Feb-17 | 0.585 |
| Mar-17 | 0.605 |
| Apr-17 | 0.615 |
| May-17 | 0.625 |
| Jun-17 | 0.650 |
| Jul-17 | 0.670 |
| Aug-17 | 0.680 |

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## Weekly Economic Calendar

### This Week & Next

| Date | Release | Per. | Est. | Actual | Prior | Revised |
|---|---|---|---|---|---|---|
| 10/17 | Empire Manufacturing | Oct | 1.00 | -6.80 | -2.00 | -- |
| 10/17 | Industrial Production MoM | Sep | 0.10% | 0.10% | ~~-0.40%~~ | -0.50% |
| 10/17 | Capacity Utilization | Sep | 75.60% | 75.40% | ~~75.50%~~ | 75.30% |
| 10/17 | Manufacturing (SIC) Production | Sep | 0.10% | 0.20% | ~~-0.40%~~ | -0.50% |
| 10/18 | CPI YoY | Sep | 1.50% | 1.50% | 1.10% | -- |
| 10/18 | CPI Ex Food and Energy YoY | Sep | 2.30% | 2.20% | 2.30% | -- |
| 10/18 | CPI Index NSA | Sep | 241.50 | 241.43 | ~~240.85~~ | 240.85 |
| 10/18 | CPI Core Index SA | Sep | 248.72 | 248.61 | ~~248.34~~ | 248.33 |
| 10/18 | Real Avg Weekly Earnings YoY | Sep | -- | 0.80% | 0.40% | -- |
| 10/18 | NAHB Housing Market Index | Oct | 63.00 | 63.00 | 65.00 | -- |
| 10/18 | Total Net TIC Flows | Aug | -- | $73.8b | ~~$140.6b~~ | $118.0b |
| 10/18 | Net Long-term TIC Flows | Aug | -- | $48.3b | ~~$103.9b~~ | $102.8b |
| 10/19 | MBA Mortgage Applications | 10/14 | -- | 0.60% | -6.00% | -- |
| 10/19 | Housing Starts | Sep | 1175k | 1047k | ~~1142k~~ | 1150k |
| 10/19 | Building Permits | Sep | 1165k | 1225k | ~~1139k~~ | 1152k |
| 10/20 | Initial Jobless Claims | 10/15 | 250k | 260k | ~~246k~~ | 247k |
| 10/20 | Continuing Claims | 10/8 | 2053k | 2057k | ~~2046k~~ | 2050k |
| 10/20 | Philadelphia Fed Business Outlook | Oct | 5.00 | 9.70 | 12.80 | -- |
| 10/20 | Existing Home Sales | Sep | 5.35m | 5.47m | ~~5.33m~~ | 5.30m |
| 10/20 | Leading Index | Sep | 0.20% | 0.20% | -0.20% | -- |
| 10/24 | Chicago Fed Nat Activity Index | Sep | -0.13 | -- | -0.55 | -- |
| 10/24 | Markit US Manufacturing PMI | Oct P | 51.60 | -- | 51.50 | -- |
| 10/25 | FHFA House Price Index MoM | Aug | 0.40% | -- | 0.50% | -- |
| 10/25 | S&P CoreLogic CS 20-City NSA Index | Aug | -- | -- | 190.91 | -- |
| 10/25 | S&P CoreLogic CS 20-City YoY NSA | Aug | 5.08% | -- | 5.02% | -- |
| 10/25 | S&P CoreLogic CS US HPI YoY NSA | Aug | -- | -- | 5.10% | -- |
| 10/25 | Consumer Confidence Index | Oct | 101.00 | -- | 104.10 | -- |
| 10/25 | Richmond Fed Manufact. Index | Oct | -4.00 | -- | -8.00 | -- |
| 10/25 | IBD/TIPP Economic Optimism | Oct | 47.50 | -- | 46.70 | -- |
| 10/26 | MBA Mortgage Applications | 10/21 | -- | -- | 0.60% | -- |
| 10/26 | Advance Goods Trade Balance | Sep | -$60.6b | -- | ~~-$58.4b~~ | -$59.2b |
| 10/26 | Wholesale Inventories MoM | Sep P | 0.10% | -- | -0.20% | -- |
| 10/26 | Markit US Services PMI | Oct P | 52.50 | -- | 52.30 | -- |
| 10/26 | Markit US Composite PMI | Oct P | -- | -- | 52.30 | -- |
| 10/26 | New Home Sales | Sep | 600k | -- | 609k | -- |
| 10/27 | Durables Ex Transportation | Sep P | 0.20% | -- | -0.20% | -- |
| 10/27 | Cap Goods Ship Nondef Ex Air | Sep P | 0.40% | -- | -0.10% | -- |
| 10/27 | Initial Jobless Claims | 10/22 | 255k | -- | 260k | -- |
| 10/27 | Continuing Claims | 10/15 | -- | -- | 2057k | -- |
| 10/27 | Pending Home Sales MoM | Sep | 1.20% | -- | -2.40% | -- |
| 10/28 | Employment Cost Index | 3Q | 0.60% | -- | 0.60% | -- |
| 10/28 | GDP Annualized QoQ | 3Q A | 2.50% | -- | 1.40% | -- |
| 10/28 | Personal Consumption | 3Q A | 2.60% | -- | 4.30% | -- |
| 10/28 | GDP Price Index | 3Q A | 1.30% | -- | 2.30% | -- |
| 10/28 | Core PCE QoQ | 3Q A | 1.60% | -- | 1.80% | -- |
| 10/28 | U. of Mich. Sentiment | Oct F | 88.20 | -- | 87.90 | -- |
| 10/28 | U. of Mich. 1 Yr Inflation | Oct F | -- | -- | 2.40% | -- |

## MBS Prepayments[4]

### 3-Month CPR

| Type | 2.0 | 2.5 | 3.0 | 3.5 | 4.0 | 4.5 |
|---|---|---|---|---|---|---|
| FN 10y | 11.8 | 13.7 | 15.6 | 17.7 | 19.6 | 20.1 |
| FH/FN 15y | 9.5 | 12.3 | 14.6 | 15.4 | 17.9 | 19.3 |
| GN 15y | 12.0 | 14.4 | 16.3 | 17.6 | 16.2 | 16.2 |
| FH/FN 20y | | 11.6 | 14.6 | 18.7 | 18.5 | 20.0 |
| FH/FN 30y | | 7.7 | 12.8 | 19.7 | 23.0 | 23.3 |
| GN 30y | 8.9 | 12.4 | 18.0 | 21.1 | 24.5 | 25.5 |

### CPR Projections

| Type | 2.0 | 2.5 | 3.0 | 3.5 | 4.0 | 4.5 |
|---|---|---|---|---|---|---|
| FN 10y | 12.0 | 12.5 | 13.7 | 16.0 | 16.8 | 17.8 |
| FH/FN 15y | 8.1 | 10.7 | 13.7 | 15.3 | 18.3 | 23.3 |
| GN 15y | 12.6 | 8.4 | 12.7 | 15.6 | 14.5 | 17.2 |
| FH/FN 20y | 6.0 | 9.0 | 15.5 | 17.2 | 20.0 | 17.2 |
| FH/FN 30y | 6.4 | 7.9 | 13.2 | 16.8 | 22.1 | 23.2 |
| GN 30y | 9.5 | 9.7 | 12.9 | 17.3 | 20.5 | 22.3 |

## Other Markets

| Index | Current | 1Wk Chng | Historical 1 Mo | 6 Mo | 1 Yr |
|---|---|---|---|---|---|
| **Currencies** | | | | | |
| Japanese Yen | 103.94 | (0.24) | 100.32 | 109.46 | 119.93 |
| Euro | 1.09 | (0.01) | 1.12 | 1.13 | 1.13 |
| Dollar Index | 98.75 | 0.73 | 95.66 | 94.60 | 95.04 |
| **Major Stock Indices** | | | | | |
| Dow Jones | 18,119 | (19) | 18,294 | 17,983 | 17,169 |
| S&P 500 | 2,139.1 | 6.1 | 2,163.1 | 2,091.5 | 2,018.9 |
| NASDAQ | 5,255.6 | 41.4 | 5,295.2 | 4,945.9 | 4,840.1 |
| **Commodities** | | | | | |
| Gold | 1,265.6 | 10.6 | 1,314.0 | 1,253.2 | 1,178.0 |
| Crude Oil | 50.62 | 0.27 | 45.34 | 43.18 | 45.20 |
| Natural Gas | 3.03 | (0.26) | 3.06 | 2.07 | 2.40 |
| Wheat | 414.5 | -6.5 | 407.8 | 495.8 | 494.8 |
| Corn | 352.5 | -1.8 | 340.0 | 384.5 | 380.8 |

## Notes

1 Call Agy = Maturity at left w/ a 1-Year Call at Par
2 Muni TEY (34% Fed, 0.5% CoF)
3 S-Corp TEY Muni (39.6%, no TEFERA)
4 MBS Prepayments are provided by Bloomberg



*Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, LP. This report was printed as of: 10/21/2016 12:34PM*

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