

Baker Market Update: Week in Review

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As all on-line schoolchildren should know, Life, Liberty, the Pursuit of Happiness and College Football are just some of the unalienable rights enumerated by Thomas Jefferson in the Declaration of Independence. As the proud founder of the University of Virginia, TJ would be glad to hear that his Cavaliers are going to have a football season. The self-evident truth about tailgating, however, is still a little unclear, as truth often is.

The truth about the pandemic-induced shutdown's effect on inflation, disinflation, and deflation are also a little unclear but we learned more about that topic this week with price-level reports for July coming our way from the BLS. On Tuesday, it was reported that the Producer Price Index, sometimes called wholesale inflation, showed some signs of life with the headline rate recording a monthly rise of 0.6%, twice what analysts expected, and a big reversal from May's deflationary drop of 0.2%. Still, year-over-year, that measure remains in deflation mode at minus 0.4% but that's less deflationary than June's minus 0.8%. Without food and energy, core PPI managed a 0.5% rise, soundly beating the estimates of just 0.1%, and a big reversal of June's locked-down pace of minus 0.3%. Year-over-year, July's core rate now stands at 0.3% and that's up from June's 0.1%. Pre-release estimates had the twelve-month rate falling to zero.

For consumer inflation, the news was probably better for Jerome Powell than it was for many consumers who still may have trouble understanding why the Fed is cheerleading for higher prices. And who could blame them? There's too much blaming going on these days anyway, but our central bankers understand that the destruction of aggregate demand may result in lower prices, but it's hardly a positive macroeconomic fundamental. And as all citizens the world over anxiously await a vaccine with which to battle COVID-19, economic scientists have been trying for decades to come up with a vaccine with which to battle deflation and have yet to be successful. A modicum of the right kind of inflation, like football, is a good thing. And on Wednesday, the BLS supplied some of that modicum with a report showing that the headline Consumer Price Index rose 0.6% last month and that was double the pace that experts were expecting. Year-over-year, CPI rose by 1% against a forecast of just 0.7%. Stripping out the inputs of food and energy, core CPI rose by 0.6%, triple the estimate and triple the prior month. The 1.6% year-over-year growth rate also beat the prediction that June's 1.2% twelve-month rate would fall to 1.1%.

Along with reports about inflation itself, inflation's impact on purchasing power was also revealed in another BLS report showing that Real Average Hourly Earnings fell to a 3.7% year-over-year growth rate in July, down from June's downwardly revised 4.1% annual pace. Similarly, the twelve-month growth rate in Real Average Weekly earnings fell to 4.3% from 4.7%. But, even though the crowd noise at this fall's football games will be muted, the statistical noise in these compensation numbers is deafening. Fourth-and-goal-from-the-one deafening.

But amidst all the positive inflation news, the National Federation of Independent Businesses reported some slippage in its Small Business Optimism Index to 98.8 from 100.6. Who could blame them? But, more optimistic news, even if it was a little dated, came from the Job Openings and Labor Turnover Survey showing that the number of unfilled employment positions rose to 5.89M in June from May's 5.37M. A rising total for that datapoint typically suggests that business is so good that employers are out there trying to hire more people. We all hope that this axiom remains valid, but the state of employment-related statistics these days is a little murky. Well, a lot murky.

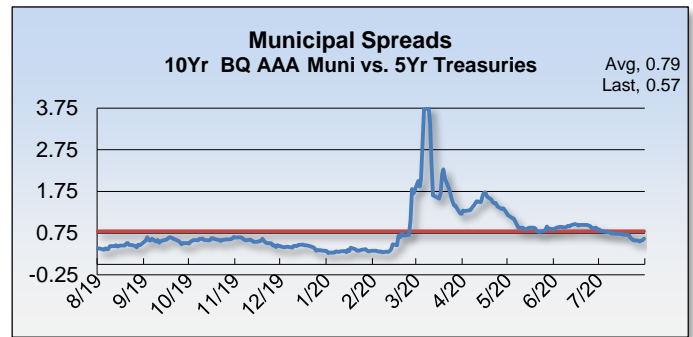
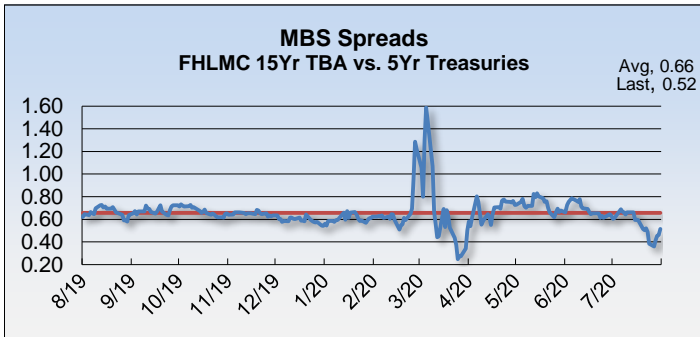
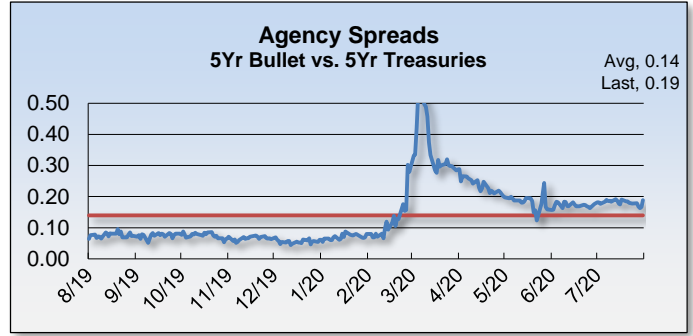
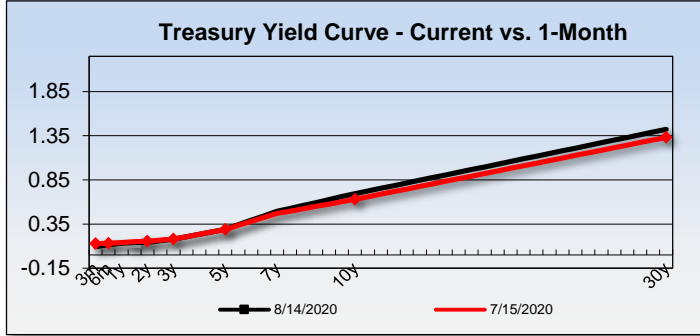
A report with hopefully a little less murk came out yesterday via the New York Fed's Weekly Economic Index. This index is a compilation of ten high-frequency measurements; some weekly and some daily, that help identify and sometimes clarify the capricious and volatile nature of economic momentum these days. That Index is still negative, by the way, but we learned yesterday that the August 11th estimate of minus 6.47 was upwardly revised to minus 5.47. And while it may not be self-evident, that's good news.

Some mixed news about Retail Sales, old and new, came out just this morning and just as the loss of kinetic energy gradually lowers the height of a bouncing ball's bounce, the bounciness in pent-up consumerism is losing some energy, too. After April's plunge of 14.7%, May sales had a big bounce-back of over 18%. The ball was still bouncing pretty high in June with a growth rate of 8.4% that was just revised from 7.5%. Today's report was for July and the bouncing has all but stopped. The 1.2% growth rate for last month was well below the forecast of 2.1%. Despite the recent robustness in auto sales, some timing issues regarding the reporting of data still showed that Sales grew by 1.9% if vehicle sales are stripped out. Core Retail Sales without autos, gas stations, and building materials also had a much subdued 1.4% bounce after June's 6% rise, but it was still better than the anticipated bump of just 0.8%.

Some better news for all came our way this morning with a BLS report showing that in the second quarter, Non-Farm Productivity exploded by 7.3% after Q1's retrenchment of 0.3%. Today's reported result was only supposed to be a gain of 1.5%. But, and there's always a but, Unit Labor Costs for the same period exploded by 12.2%; not quite double the estimate. And if that wasn't disconcerting enough to all but the inflation-seeking Mr. Powell, Q1's 5.1% rise in labor costs was revised to 9.8%.

We learned of another revision this morning, this one for June's Industrial Production. The reported rise of 5.4% was upped to 5.7% as July's growth rate came in right at the expected 3%. The growth in the economy's output gap has been epic this year and so it was good news to learn today that Capacity Utilization, a measure of the economy's actual use of mining, manufacturing, and utility production capabilities relative to their potential, rose to 70.6% from 68.5% versus an estimated move to 70.3%.

And finally, even though the Big 10 has given up on football this season, the Wolverines have not given up on consumers and the University of Michigan posted its preliminary August report on Consumer Sentiment just this morning. The good news is that its Sentiment Index moved up slightly to 72.8 from 72.5. The better news might be that it was expected to dip to just 72. But the bestest news for Michigan fans is that this year, they've got a legitimate shot at snapping their losing streak to Ohio State. Have a great week; 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	0.09	0.00	0.14	1.57	1.94	2yr	0.22	0.24	0.15	0.16	0.25	2Yr	0.20	0.22	0.21	-
6mo	0.12	0.00	0.15	1.55	1.90	3yr	0.28	0.25	0.17	0.18	0.36	3Yr	0.32	0.34	0.30	0.30
1yr	0.13	0.00	0.15	1.48	1.78	5yr	0.49	0.35	0.28	0.30	0.57	5Yr	0.55	0.58	0.59	0.56
2yr	0.15	0.02	0.16	1.43	1.58	7yr	0.74	0.50	0.56	0.60	0.84	7Yr	0.78	0.81	0.83	0.81
3yr	0.18	0.03	0.19	1.40	1.55	10yr	1.06	0.69	0.88	0.94	1.38	10Yr	1.18	1.11	1.14	1.13
5yr	0.29	0.06	0.29	1.42	1.49	15yr	1.38	0.88	1.32	1.40	1.81	September TBA MBS				
7yr	0.49	0.09	0.47	1.51	1.54	20yr	1.71	0.97	1.60	1.70	2.33	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.69	0.13	0.62	1.59	1.58	25yr	2.04	1.01	1.73	1.84	2.39	2.00	1.07	4.2y	1.33	
30yr	1.42	0.19	1.31	2.04	2.02	30yr	2.04	1.02	1.86	1.98	2.44	2.50	1.05	3.4y		
												3.00	1.20	2.9y	0.81	2.6y
												3.50	1.17	2.4y	0.72	2.0y
												4.00			0.64	2.1y
												4.50			1.13	2.5y

* Interpolated

Key Market Indices					
Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	1.75	2.25
Primary Discount	0.25	--	0.25	2.25	2.75
2ndary Discount	0.75	--	0.75	2.75	3.25
Prime Rate	3.25	--	3.25	4.75	5.25
Sec. O.N. Finance	0.09	--	0.10	1.57	--
1 Month LIBOR	0.16	0.00	0.18	1.65	2.20
3 Month LIBOR	0.26	0.02	0.27	1.70	2.18
6 Month LIBOR	0.34	0.04	0.35	1.73	2.06
1 Year LIBOR	0.46	0.01	0.48	1.81	1.99
6 Month CD	0.20	0.01	0.39	1.71	2.05
1 Year CMT	0.14	--	0.16	1.48	1.86
REPO O/N	0.13	0.04	0.11	1.61	2.22
REPO 1Wk	0.09	--	0.10	1.59	2.14
CoF Federal	1.158	--	1.224	1.955	2.297
11th D. CoF (Jun)	0.682	--	0.755	1.036	1.141

FHLB Fixed Advance Rates			
Maturity	Chicago	Boston	Topeka
3mo	0.28	0.41	0.42
6mo	0.28	0.41	0.45
1yr	0.34	0.35	0.49
2yr	0.39	0.58	0.56
3yr	0.44	0.63	0.66
4yr	0.54	0.75	0.77
5yr	0.63	0.86	0.85
7yr	0.93	1.19	1.09
10yr	1.27	1.54	1.42
5yr Am	0.50		0.81
10yr Am	0.92		1.23

Fed Fund Futures	
Maturity	Rate
Aug-20	0.097
Sep-20	0.085
Oct-20	0.075
Nov-20	0.070
Dec-20	0.065
Jan-21	0.055
Feb-21	0.050
Mar-21	0.045
Apr-21	0.040
May-21	0.040
Jun-21	0.035

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
8/10	JOLTS Job Openings	Jun	5300	5889	5397	5371
8/11	NFIB Small Business Optimism	Jul	100.5	98.8	100.6	--
8/11	PPI Final Demand YoY	Jul	-0.7%	-0.4%	-0.8%	--
8/11	PPI Ex Food and Energy YoY	Jul	0.0%	0.3%	0.1%	--
8/11	PPI Ex Food, Energy, Trade YoY	Jul	0.1%	0.1%	-0.1%	--
8/12	MBA Mortgage Applications	8/7	--	6.8%	-5.1%	--
8/12	CPI YoY	Jul	0.7%	1.0%	0.6%	--
8/12	CPI Ex Food and Energy YoY	Jul	1.1%	1.6%	1.2%	--
8/12	CPI Index NSA	Jul	258.54	259.10	257.80	--
8/12	CPI Core Index SA	Jul	266.59	267.72	266.07	--
8/12	Real Avg Hourly Earning YoY	Jul	--	3.7%	4.3%	4.1%
8/12	Real Avg Weekly Earnings YoY	Jul	--	4.3%	4.6%	4.7%
8/12	Monthly Budget Statement	Jul	-\$90.0b	-\$63.0b	-\$119.7b	--
8/13	Import Price Index YoY	Jul	-3.1%	-3.3%	-3.8%	-3.9%
8/13	Export Price Index YoY	Jul	--	-4.4%	-4.4%	-5.1%
8/13	Initial Jobless Claims	8/8	1100k	963k	1186k	1191k
8/13	Continuing Claims	8/1	15800k	15486k	16107k	16090k
8/13	Bloomberg Consumer Comfort	8/9	--	43.7	44.9	--
8/14	Retail Sales Advance MoM	Jul	2.1%	1.2%	7.5%	8.4%
8/14	Retail Sales Ex Auto MoM	Jul	1.3%	1.9%	7.3%	8.3%
8/14	Retail Sales Ex Auto and Gas	Jul	1.0%	1.5%	6.7%	7.7%
8/14	Retail Sales Control Group	Jul	0.8%	1.4%	5.6%	6.0%
8/14	Nonfarm Productivity	2Q P	1.5%	7.3%	-0.9%	-0.3%
8/14	Unit Labor Costs	2Q P	6.9%	12.2%	5.1%	9.8%
8/14	Industrial Production MoM	Jul	3.0%	3.0%	5.4%	5.7%
8/14	Capacity Utilization	Jul	70.3%	70.6%	68.6%	68.5%
8/14	Manufacturing (SIC) Production	Jul	3.0%	3.4%	7.2%	7.4%
8/14	Business Inventories	Jun	-1.1%	-1.1%	-2.3%	--
8/14	U. of Mich. Sentiment	Aug P	72.0	72.8	72.5	--
8/14	U. of Mich. Current Conditions	Aug P	82.3	82.5	82.8	--
8/14	U. of Mich. Expectations	Aug P	65.5	66.5	65.9	--
8/14	U. of Mich. 1 Yr Inflation	Aug P	2.9%	3.0%	3.0%	--
8/17	Empire Manufacturing	Aug	14.5	--	17.2	--
8/17	NAHB Housing Market Index	Aug	74	--	72	--
8/17	Net Long-term TIC Flows	Jun	--	--	\$127.0b	--
8/17	Total Net TIC Flows	Jun	--	--	-\$4.5b	--
8/17	Mortgage Delinquencies	2Q	--	--	4.36%	--
8/17	MBA Mortgage Foreclosures	2Q	--	--	0.73%	--
8/18	Building Permits	Jul	1332k	--	1241k	1258k
8/18	Housing Starts	Jul	1230k	--	1186k	--
8/20	Philadelphia Fed Business Outlook	Aug	21.0	--	24.1	--
8/20	Bloomberg Economic Expectations	Aug	--	--	38.5	--
8/20	Leading Index	Jul	1.0%	--	2.0%	--
8/21	Markit US Manufacturing PMI	Aug P	51.5	--	50.9	--
8/21	Markit US Services PMI	Aug P	50.7	--	50.0	--
8/21	Markit US Composite PMI	Aug P	--	--	50.3	--
8/21	Existing Home Sales	Jul	5.40m	--	4.72m	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	14.5	20.6	23.1	29.1	26.3	10.7
FH/FN 15y	9.9	13.8	41.1	51.2	19.7	19.2
GN 15y	32.3	26.1	27.1	23.9	23.6	22.1
FH/FN 20y	3.6	20.6	27.6	29.5	30.1	22.2
FH/FN 30y	4.2	16.2	33.8	55.5	63.7	56.4
GN 30y	28.2	20.5	24.2	38.2	38.7	33.7
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	19.1	18.5	19.4	28.1	22.9	17.8
FH/FN 15y	15.4	19.4	23.0	27.2	18.8	20.6
GN 15y	27.2	13.8	16.5	16.3	14.4	13.4
FH/FN 20y	23.5	22.0	22.3	21.4	21.1	18.1
FH/FN 30y	15.4	21.9	33.9	38.8	36.7	30.9
GN 30y	12.9	16.8	28.2	27.7	28.6	23.2

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	106.52	0.60	107.24	109.78	105.91
Euro	1.18	0.00	1.14	1.08	1.11
Dollar Index	93.12	(0.32)	96.26	99.12	97.99
Major Stock Indices					
Dow Jones	27,893	459	26,643	29,398	25,479
S&P 500	3,370.6	19.3	3,197.5	3,380.2	2,840.6
NASDAQ	11,015.4	4	10,488.6	9,731.2	7,773.9
Commodities					
Gold	1,947.4	(62.7)	1,813.4	1,582.7	1,515.9
Crude Oil	42.03	0.81	40.29	52.05	55.23
Natural Gas	2.32	0.08	1.75	1.84	2.14
Wheat	504.3	8.8	524.8	542.8	473.8
Corn	324.5	16.8	334.8	377.8	359.0

Notes

- 1 Call Agy = Maturity at left w/ a 1-Year Call at Par
- 2 Muni TEY (21% Fed, 0.75% CoF)
- 3 S-Corp TEY Muni (29.6%, no TEFERA)
- 4 MBS Prepayments are provided by Bloomberg

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