

## Baker Market Update: Week in Preview

Lester Murray

Associate Partner

Financial Strategies Group

[lester@gobaker.com](mailto:lester@gobaker.com)

800.937.2257

The Baker Group

[GoBaker.com](http://GoBaker.com)

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



Investors were greeted this morning by a little bit of good news and a little bit of not-so-good news. The National Association of Homebuilders announced today that its Housing Market Index jumped in August to 78 from the prior month's level of 72. The gain exceeded the forecast of 74 as that measure has now achieved its highest level since 1998. That was the good news. The not-so-good news came our way courtesy of the New York Fed who announced this morning that its Empire Manufacturing Index took an August plunge to 3.7 from July's 17.2. The nosedive in manufacturing activity surprised analysts who were only expecting a mild slip to 15.

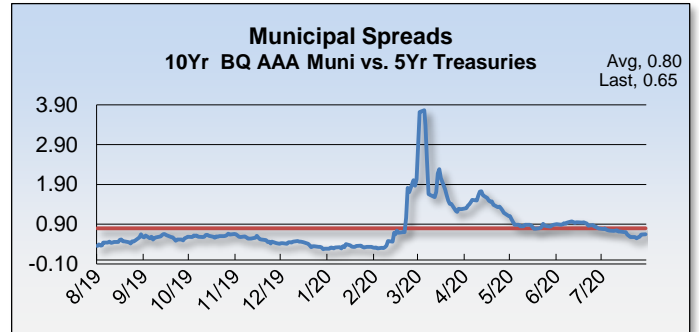
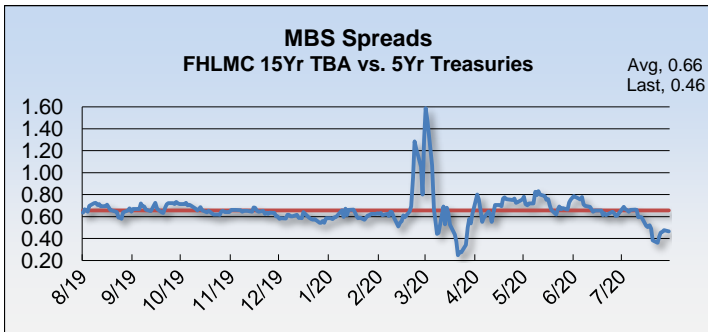
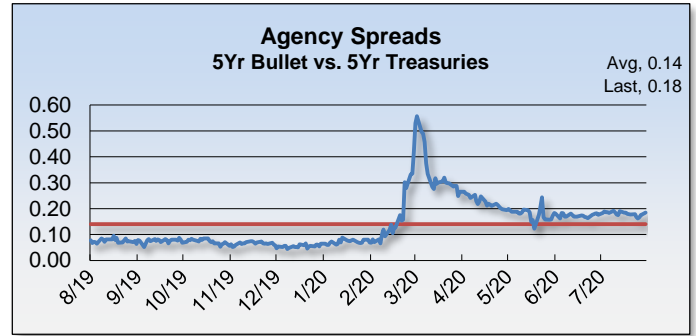
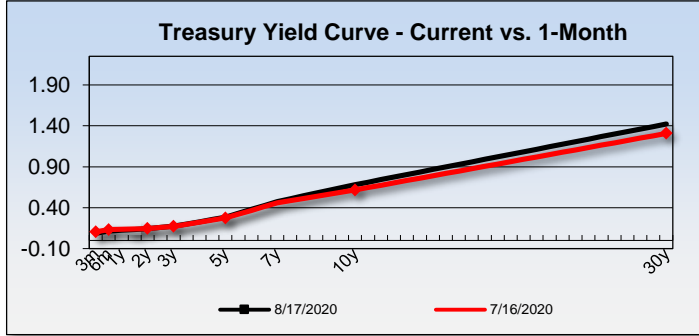
More news of the positive variety is expected to come Housing's way with the announcement tomorrow morning that Housing Starts in July rose 4.6% in a little comedown from June's 17.3% spike, but still pretty robust. Along with that, we'll also get an update on July's Building Permits and forecasts point to a 4.9% rise following June's revised 3.5% growth rate.

On Wednesday, the Treasury will be selling \$25B Twenty-Year bonds while investors pore over the latest FOMC minutes also scheduled for release on that day. One thing analysts will be looking for in the recap of the latest monetary discussions are indications of just how soon the Committee will formalize changes in the way the Fed manages inflation in the future. Mr. Powell's Committee is expected to announce, at some point, its intention to allow inflation to run above target for some period of time following periods of below-target inflation experience. This would be a departure from the Fed's historical pattern of attacking inflation with restrictive monetary policy once it achieves or begins to closely approach the desired level of price level growth.

On Thursday, the Philadelphia Fed is scheduled to report its Business Outlook Survey of General Conditions and it is generally expected to have slipped a little bit this month. July's Index level of 24.1 is forecast to have dropped to just 21 in August. Thursday also brings the weekly Jobless Claims numbers and Initial Claims for the week ending August 15<sup>th</sup> are expected to report a further decline to 915k from the prior 963k. Continuing Claims are also expected to continue to fall with a total of 15M for the week ending August 8<sup>th</sup> and that would be down from the prior week's 15.49M. The Conference Board is also expected to announce that its Index of Leading Economic Indicators gained 1% in July following June's rise of 2%.

Friday will bring a private purchasing managers' report from Markit Services that should show improvement in its Manufacturing Index to 51.8 this month from last month's 50.9. The PMI for Services should show similar improvement to 51 from 50. Existing Home Sales for July will also be announced on Friday and experts are looking for an energetic 14% gain in that total.

So far today, Treasuries are enjoying this morning with a modest rally that has pushed the Ten-Year's yield down to around 67 basis points while the Long Bond still rests just north of 1.40%. Equity investors may be having a little less fun as earlier green arrows have turned red. Gold is enjoying a \$30 rally to \$1,981 while crude oil is pretty steady at around \$42. Stay in the shade and 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 <sup>2</sup>	S-Corp <sup>3</sup>		Mty	3Mo	6mo	1Yr	2Yr
3mo	0.09	(0.01)	0.11	1.57	1.86	2yr	0.20	0.23	0.20	0.21	0.23	2Yr	0.22	0.22	0.21	-
6mo	0.11	(0.01)	0.13	1.55	1.85	3yr	0.27	0.25	0.21	0.22	0.34	3Yr	0.32	0.34	0.30	0.30
1yr	0.12	(0.01)	0.14	1.48	1.71	5yr	0.47	0.34	0.32	0.34	0.55	5Yr	0.54	0.57	0.58	0.55
2yr	0.14	0.01	0.15	1.43	1.48	7yr	0.72	0.49	0.60	0.64	0.82	7Yr	0.77	0.80	0.81	0.79
3yr	0.17	0.03	0.18	1.40	1.46	10yr	1.04	0.68	0.92	0.98	1.37	10Yr	1.09	1.12	1.13	1.12
5yr	0.28	0.05	0.28	1.42	1.42	15yr	1.36	0.88	1.36	1.45	1.80	September TBA MBS				
7yr	0.48	0.06	0.47	1.51	1.49	20yr	1.68	0.97	1.64	1.74	2.34	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.68	0.10	0.63	1.59	1.55	25yr	2.00	1.01	1.77	1.88	2.40	2.00	1.02	3.9y	1.35	
30yr	1.42	0.17	1.33	2.04	2.04	30yr		1.03	1.90	2.03	2.45	2.50	1.00	3.4y		
												3.00	1.22	2.9y	0.82	2.6y
												3.50	1.20	2.4y	0.75	2.1y
												4.00			0.62	2.1y
												4.50			1.05	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	--	0.11	1.58	--
1 Month LIBOR	0.15	(0.01)	0.18	1.66	2.20
3 Month LIBOR	0.27	0.02	0.27	1.69	2.17
6 Month LIBOR	0.33	0.02	0.34	1.71	2.08
1 Year LIBOR	0.46	0.01	0.48	1.80	2.03
6 Month CD	0.21	(0.07)	0.39	1.79	1.93
1 Year CMT	0.13	(0.01)	0.17	1.49	1.79
REPO O/N	0.13	0.01	0.14	1.61	2.10
REPO 1Wk	0.09	--	0.09	1.59	2.17
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	0.36	0.49
2yr	0.39	0.57	0.56
3yr	0.43	0.62	0.66
4yr	0.53	0.74	0.77
5yr	0.62	0.84	0.85
7yr	0.91	1.17	1.09
10yr	1.26	1.53	1.42
5yr Am	0.49		0.81
10yr Am	0.90		1.23

Fed Fund Futures	
Maturity	Rate
Aug-20	0.097
Sep-20	0.085
Oct-20	0.080
Nov-20	0.070
Dec-20	0.065
Jan-21	0.055
Feb-21	0.050
Mar-21	0.045
Apr-21	0.045
May-21	0.040
Jun-21	0.040

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
8/17	NAHB Housing Market Index	Aug	74	78	72	--
8/17	Empire Manufacturing	Aug	15.0	3.7	17.2	--
8/17	Mortgage Delinquencies	2Q	--	8.22%	4.36%	--
8/17	MBA Mortgage Foreclosures	2Q	--	0.68%	0.73%	--
8/17	Net Long-term TIC Flows	Jun	--	--	\$127.0b	--
8/17	Total Net TIC Flows	Jun	--	--	-\$4.5b	--
8/18	Housing Starts	Jul	1248k	--	1186k	--
8/18	Building Permits	Jul	1325k	--	1244k	1258k
8/19	MBA Mortgage Applications	8/14	--	--	6.8%	--
8/20	Philadelphia Fed Business Outlook	Aug	21.0	--	24.1	--
8/20	Initial Jobless Claims	8/15	908k	--	963k	--
8/20	Continuing Claims	8/8	15000k	--	15486k	--
8/20	Bloomberg Economic Expectations	Aug	--	--	38.5	--
8/20	Bloomberg Consumer Comfort	8/16	--	--	43.7	--
8/20	Leading Index	Jul	1.0%	--	2.0%	--
8/21	Markit US Manufacturing PMI	Aug P	52.0	--	50.9	--
8/21	Markit US Services PMI	Aug P	51.0	--	50.0	--
8/21	Markit US Composite PMI	Aug P	--	--	50.3	--
8/21	Existing Home Sales	Jul	5.40m	--	4.72m	--
8/21	Existing Home Sales MoM	Jul	14.4%	--	20.7%	--
8/24	Chicago Fed Nat Activity Index	Jul	3.88	--	4.11	--
8/25	House Price Purchase Index QoQ	2Q	--	--	1.7%	--
8/25	FHFA House Price Index MoM	Jun	0.4%	--	-0.3%	--
8/25	S&P CoreLogic CS 20-City YoY NSA	Jun	--	--	3.69%	--
8/25	S&P CoreLogic CS US HPI YoY NSA	Jun	--	--	4.46%	--
8/25	Conf. Board Consumer Confidence	Aug	93.1	--	92.6	--
8/25	Conf. Board Present Situation	Aug	--	--	94.2	--
8/25	New Home Sales	Jul	766k	--	776k	--
8/25	Conf. Board Expectations	Aug	--	--	91.5	--
8/25	New Home Sales MoM	Jul	-1.3%	--	13.8%	--
8/25	Richmond Fed Manufact. Index	Aug	--	--	10.0	--
8/26	Durables Ex Transportation	Jul P	2.6%	--	3.6%	--
8/26	Cap Goods Ship Nondef Ex Air	Jul P	--	--	3.3%	--
8/27	GDP Annualized QoQ	2Q S	-32.4%	--	-32.9%	--
8/27	Personal Consumption	2Q S	--	--	-34.6%	--
8/27	GDP Price Index	2Q S	--	--	-1.8%	--
8/27	Core PCE QoQ	2Q S	--	--	-1.1%	--
8/27	Pending Home Sales NSA YoY	Jul	--	--	12.7%	--
8/28	Personal Income	Jul	-0.5%	--	-1.1%	--
8/28	Advance Goods Trade Balance	Jul	-\$72.0b	--	-\$70.6b	--
8/28	Real Personal Spending	Jul	--	--	5.2%	--
8/28	PCE Deflator YoY	Jul	--	--	0.8%	--
8/28	PCE Core Deflator YoY	Jul	--	--	0.9%	--
8/28	MNI Chicago PMI	Aug	--	--	51.9	--
8/28	U. of Mich. Sentiment	Aug F	72.8	--	72.8	--
8/28	U. of Mich. Current Conditions	Aug F	--	--	82.5	--
8/28	U. of Mich. 1 Yr Inflation	Aug F	--	--	3.0%	--

MBS Prepayments <sup>4</sup>						
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	16.7	20.3	23.2	27.2	18.8	20.5
GN 15y	27.2	13.8	16.5	16.3	14.4	13.4
FH/FN 20y	23.5	22.4	22.4	21.5	21.0	18.0
FH/FN 30y	15.2	22.4	34.5	37.9	36.4	31.0
GN 30y	12.9	16.8	28.2	27.7	28.2	22.8

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
<b>Currencies</b>					
Japanese Yen	106.11	0.15	107.02	109.88	106.64
Euro	1.19	0.01	1.14	1.08	1.11
Dollar Index	92.82	(0.76)	95.94	99.00	98.14
<b>Major Stock Indices</b>					
Dow Jones	27,853	62	26,672	29,398	25,886
S&P 500	3,383.0	22.6	3,224.7	3,380.2	2,888.7
NASDAQ	11,101.7	133	10,503.2	9,731.2	7,896.0
<b>Commodities</b>					
Gold	1,954.9	(69.5)	1,810.0	1,582.7	1,512.5
Crude Oil	42.46	0.52	40.59	52.05	54.87
Natural Gas	2.34	0.19	1.72	1.84	2.20
Wheat	511.8	20.8	534.8	542.8	470.8
Corn	328.8	18.3	333.0	377.8	371.0

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

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, L.P. This report was printed as of: 08/17/2020 9:25AM