

Baker Market Update: Week in Review

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When the FOMC released the minutes of its July meeting earlier this week, they didn't mail them in. Still, the retroactive disappointment they brought to investors looking for a declaration of even more relief and stimulus was more literal than virtual. The minutes were full of concern over the pandemic's damage to economic prospects, but investors looking for the Fed's next silver bullet didn't get what they wanted. Those looking for more specificity about possible strategic changes to the formulation of monetary policy through the use of fundamental markers like inflation and unemployment were also unfulfilled as such changes appear to be tabled for the time being. Also tabled for the time being is the consideration of further control of the yield curve by using bond purchases to keep longer-term yields low. A reader of the meeting's summary would probably come away with the impression that the Committee doesn't think such a step would be very useful nor is it particularly needed at present. Thankfully, the Committee must think that 1.35% for the Thirty-Year and 65 basis points for the Ten-Year is low enough. It is.

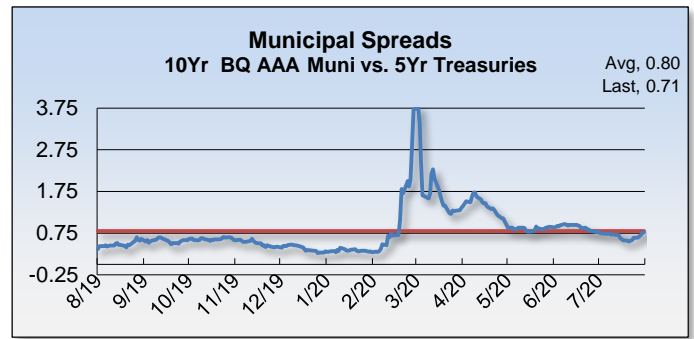
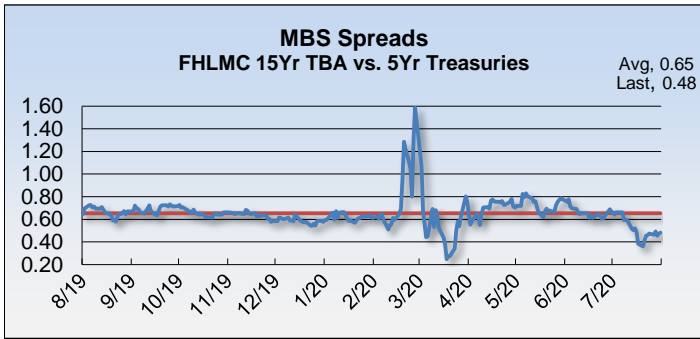
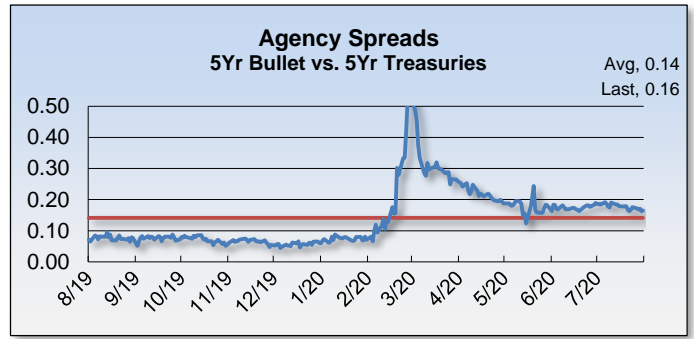
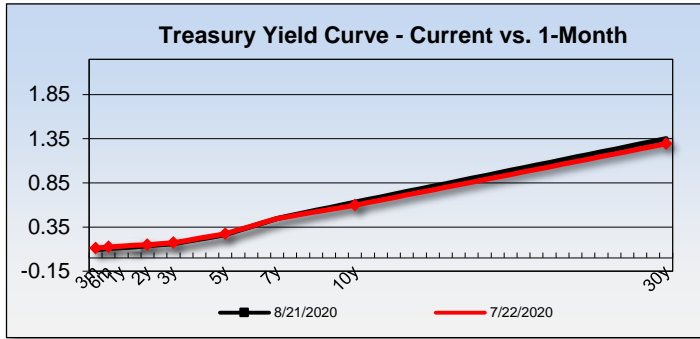
But as we learned on Monday, low interest rates were not enough to prevent an 8.22% jump in second quarter mortgage delinquencies. That was almost twice the experience of the first quarter. But despite that unwelcome news, the National Association of Homebuilders announced on the same day that its Housing Market Index soared to 78 this month from July's 72 while forecasters were only looking for a move to 74. More good news for Housing came out this morning with the Census Bureau's report that the sales of Existing Homes soared 24.7% in July versus estimates of a 14% boost. The tally for June suffered a small downward revision.

The New York Fed might have been wishing for some revisions to its Empire Manufacturing Index, but we learned on Monday there was no such luck. That measure plummeted this month to just 3.7 in a big fall from July's 17.2. Forecasters were only expecting a slight slip to 15. No slippage of any kind could be found in July's Housing Starts as we learned on Tuesday that those new starts erupted by 22.6% in the face of just a 5% estimated rise. Building Permits, too, outperformed expectations with an 18.8% leap that also confounded prognosticators who were only looking for a 5.4% increase.

Those confounded Jobless Claims aren't going away, though, and we saw on Thursday that for the week ending August 15th, that number saw a dismaying increase of 1.1M when they were expected to fall to 920k from the prior week's 963k. Slightly better news for Continuing Claims as, for the week ending August 8th, that total dipped to 14.84M from 15.4M against an expected decline to 15M. More good news came our way from the Conference Board later that day when it reported that its Index of Leading Economic Indicators rose by 1.4% in July and while less than the prior month's 2% gain, still beat estimates of a 1.1% improvement. Also out yesterday, the Philadelphia Fed could claim no such improvement in its Outlook Survey of General Conditions as that index fell this month to 17.2 from 24.1 against an estimate of 20.8. The New York Fed, meanwhile, refreshed its Weekly Economic Index, an aggregation of ten high-frequency inputs, and a small improvement could be seen in its new value of minus 5.73; a little less negative than the prior week's minus 6.07.

Besides the home sales numbers that came out this morning, Markit Services published its preliminary Purchasing Managers' Indices for Services and Manufacturing and significant improvement could be found in both. The PMI for Manufacturing rose to 53.6 this month from July's 50.9 where only a move to 52 was expected. For the Services sector, that PMI jumped to 54.8 from 50 and that soundly beat the estimate of 51. More good news!

To many, the wrap-up of the Democrat's convention is pretty good news too, but now it's the Republicans turn and that has a lot of people wishing for a return to Shark Week. With all the hubbub over mail-in voting, it's unfortunate that we can't have mail-in conventions instead. Have a great mask-wearing weekend; be careful out there. Especially in California.



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)	0.12	1.55	1.97	2yr	0.19	0.22	0.20	0.21	0.22	2Yr	0.20	0.21	0.20	-
6mo	0.11	(0.01)	0.13	1.52	1.90	3yr	0.27	0.23	0.21	0.22	0.32	3Yr	0.29	0.31	0.30	0.28
1yr	0.12	(0.02)	0.14	1.43	1.78	5yr	0.45	0.32	0.32	0.34	0.52	5Yr	0.51	0.54	0.55	0.53
2yr	0.14	(0.00)	0.14	1.36	1.58	7yr	0.64	0.46	0.60	0.64	0.77	7Yr	0.72	0.75	0.76	0.77
3yr	0.16	(0.02)	0.17	1.32	1.54	10yr	0.99	0.64	1.02	1.09	1.20	10Yr	1.02	1.05	1.07	1.09
5yr	0.26	(0.03)	0.27	1.32	1.47	15yr	1.33	0.83	1.50	1.59	1.73	September TBA MBS				
7yr	0.45	(0.05)	0.45	1.40	1.54	20yr	1.68	0.93	1.78	1.89	2.28	Cpn	15Yr -Yld/AL		30Yr -Yld/AL	
10yr	0.63	(0.08)	0.60	1.47	1.59	25yr	2.03	0.96	1.91	2.03	2.34	2.00	0.97	3.9y	1.33	
30yr	1.35	(0.10)	1.31	1.92	2.07	30yr	2.03	0.98	2.04	2.18	2.39	2.50	0.98	3.4y		
												3.00	1.21	2.9y	0.72	2.5y
												3.50	1.14	2.4y	0.76	2.1y
												4.00			0.67	2.1y
												4.50			1.06	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	0.07	(0.02)	0.12	1.60	--
1 Month LIBOR	0.17	0.01	0.18	1.64	2.17
3 Month LIBOR	0.25	(0.02)	0.27	1.70	2.15
6 Month LIBOR	0.30	(0.03)	0.33	1.70	2.03
1 Year LIBOR	0.44	(0.01)	0.47	1.77	1.95
6 Month CD	0.19	(0.01)	0.39	1.69	1.93
1 Year CMT	0.12	(0.02)	0.14	1.46	1.72
REPO O/N	0.09	(0.04)	0.14	1.60	2.17
REPO 1Wk	0.09	--	0.09	1.61	2.15
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	0.39	0.41
6mo	0.28	0.40	0.44
1yr	0.33	0.34	0.48
2yr	0.37	0.55	0.53
3yr	0.42	0.61	0.64
4yr	0.51	0.71	0.73
5yr	0.59	0.81	0.80
7yr	0.87	1.12	1.02
10yr	1.19	1.46	1.33
5yr Am	0.47		0.78
10yr Am	0.85		1.16

Fed Fund Futures	
Maturity	Rate
Aug-20	0.095
Sep-20	0.080
Oct-20	0.070
Nov-20	0.065
Dec-20	0.065
Jan-21	0.055
Feb-21	0.050
Mar-21	0.040
Apr-21	0.040
May-21	0.035
Jun-21	0.030

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	--	\$113.0b	\$127.0b	\$118.1b
8/17	Total Net TIC Flows	Jun	--	-\$67.9b	-\$4.5b	-\$15.9b
8/18	Housing Starts	Jul	1245k	1496k	1186k	1220k
8/18	Housing Starts MoM	Jul	5.0%	22.6%	17.3%	17.5%
8/18	Building Permits	Jul	1326k	1495k	1244k	1258k
8/18	Building Permits MoM	Jul	5.4%	18.8%	2.1%	3.5%
8/19	MBA Mortgage Applications	8/14	--	-3.3%	6.8%	--
8/20	Philadelphia Fed Business Outlook	Aug	20.8	17.2	24.1	--
8/20	Initial Jobless Claims	8/15	920k	1106k	963k	971k
8/20	Continuing Claims	8/8	15000k	14844k	15486k	15480k
8/20	Bloomberg Economic Expectations	Aug	--	38.0	38.5	--
8/20	Bloomberg Consumer Comfort	8/16	--	43.5	43.7	--
8/20	Leading Index	Jul	1.1%	1.4%	2.0%	3.0%
8/21	Markit US Manufacturing PMI	Aug P	52.0	53.6	50.9	--
8/21	Markit US Services PMI	Aug P	51.0	54.8	50.0	--
8/21	Markit US Composite PMI	Aug P	--	54.7	50.3	--
8/21	Existing Home Sales	Jul	5.41m	5.86m	4.72m	4.70m
8/21	Existing Home Sales MoM	Jul	14.6%	24.7%	20.7%	20.2%
8/24	Chicago Fed Nat Activity Index	Jul	3.69	--	4.11	--
8/25	House Price Purchase Index QoQ	2Q	--	--	1.7%	--
8/25	FHFA House Price Index MoM	Jun	0.3%	--	-0.3%	--
8/25	S&P CoreLogic CS 20-City YoY NSA	Jun	3.50%	--	3.69%	--
8/25	S&P CoreLogic CS US HPI YoY NSA	Jun	--	--	4.46%	--
8/25	Conf. Board Consumer Confidence	Aug	93.0	--	92.6	--
8/25	Conf. Board Present Situation	Aug	--	--	94.2	--
8/25	New Home Sales	Jul	776k	--	776k	--
8/25	Conf. Board Expectations	Aug	--	--	91.5	--
8/26	Durables Ex Transportation	Jul P	1.7%	--	3.6%	--
8/26	Cap Goods Ship Nondef Ex Air	Jul P	2.0%	--	3.3%	--
8/27	GDP Annualized QoQ	2Q S	-32.5%	--	-32.9%	--
8/27	Personal Consumption	2Q S	-34.6%	--	-34.6%	--
8/27	GDP Price Index	2Q S	-1.8%	--	-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	-0.30%	--	-1.10%	--
8/28	Advance Goods Trade Balance	Jul	-\$72.5b	--	-\$70.6b	--
8/28	Real Personal Spending	Jul	--	--	5.2%	--
8/28	PCE Deflator YoY	Jul	1.0%	--	0.8%	--
8/28	PCE Core Deflator YoY	Jul	1.2%	--	0.9%	--
8/28	MNI Chicago PMI	Aug	52.5	--	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 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	16.7	20.3	23.2	27.2	18.8	20.5
GN 15y	27.2	13.8	16.5	16.2	14.4	13.4
FH/FN 20y	23.5	22.4	22.4	21.5	21.0	18.0
FH/FN 30y	15.4	22.7	35.4	38.0	36.5	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
Currencies					
Japanese Yen	106.03	(0.57)	106.80	111.61	106.62
Euro	1.18	(0.01)	1.15	1.08	1.11
Dollar Index	93.36	0.27	95.12	99.26	98.30
Major Stock Indices					
Dow Jones	27,783	(148)	26,840	28,992	26,203
S&P 500	3,386.0	13.2	3,257.3	3,337.8	2,924.4
NASDAQ	11,296.4	277	10,680.4	9,576.6	8,020.2
Commodities					
Gold	1,910.9	(26.1)	1,843.9	1,644.6	1,504.6
Crude Oil	42.20	0.19	41.96	53.38	55.68
Natural Gas	2.32	(0.03)	1.68	1.91	2.17
Wheat	516.5	16.5	527.8	551.0	462.5
Corn	326.3	1.8	322.8	377.0	362.5

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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